Microfinance Institutions (MFIs):

A Study on their Performance and Dynamics in Assam

A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy

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ABSTRACT

Title of the Thesis : Microfinance Institutions (MFIs) – A Study on their Performance and Dynamics in Assam

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Periodicity of the Research : The research covers a period from FY 2007-08 to FY 2010-11.

Objective of the Research : This study aims to achieve the following three objectives:-

(i) To measure objectively the performance of selected microfinance institutions using financial parameters;

(ii) To measure objectively the performance of selected microfinance institutions using social parameters;

(iii) To understand the dynamics of MFIs in terms of their microfinance assessment mechanism, delivery system and monitoring system.

Research Methodology: The research was based on primary as well as secondary data. First, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) was considered. Table I provides the number of NGOs, NGO-MFIs and MFIs operating in Assam as per the sector overview report of CML published in February, 2010.

Table I: No of MFIs in Assam

Institutions	Numbers
NGO-MFIs	84
MFIs	7
NGOs	121
TOTAL	212

*Source: CML, Sector Overview, 2010

Table II: No. of MFIs That Have Been Operating During the Period 2008-2010

Institutions	Numbers
NGO-MFIs	65
MFIs	6
NGOs	8
TOTAL	79

*Source: CML, Sector Overview, 2010

* NGOs are defined as organizations registered under Societies Registration Act, 1860 or under the Indian Trust Act and which are mainly engaged in livelihood based development activities including provision of support services. NGO-MFIs are NGOs engaged in microfinance activities apart from the activities defined for NGOs. MFIs are organizations exclusively engaged only in microfinance.

From this CML data base, only those MFIs that are continuing microfinance operations in Assam for the last three financial years, from FY 2007-08 to FY 2009-10 were selected. After this screening, the number of available MFIs came down from 212 to 79 as shown in Table II above. From this target population of 79 MFIs, top 40 MFIs were selected based on the MFIs' outreach i.e., number of clients served by the MFIs. Finally with six rejections, 34 MFIs (43% of the target population) spread across 14 districts of Assam were considered for the study.

For Objective #1: To measure the financial performance of selected microfinance institutions in Assam, thirty financial ratios were used under six performance dimensions viz., profitability, risk, financial management, sustainability, efficiency and productivity. The ratios were selected from the review of the past literatures based on the performance of MFIs. The inputs for these ratios were collected from the Balance Sheet, Profit & Loss Account, Receipts & Payments Statements, Income & Expenditure Statements, Trial Balance and other general information of 34 MFIs for three financial years from 2007-2008 to 2009-2010. Initially, these ratios were calculated for each of the 34 MFIs for the three financial years mentioned above. For each ratio, year wise an average for the sample was calculated. This resulted in three 'means' and using these means, a final average was calculated and used for further analysis. Comparisons of most of the ratios were made with their respective National benchmark ratios which were published by Microfinance Information Exchange (MIX).

For Objective #2: Using the Social Performance Indicators (SPI)** tool, an internal evaluation of the social performance of the MFIs of Assam was conducted in light of four fundamental dimensions with some research queries to be addressed - Who are the clients and how are they targeted? Are products and services adapted to clients' needs?

** The Social Performance Indicators initiative (SPI) developed by Cerise and its partners, was the precursor of a method to measure social performance. Developed in 2004 in collaboration with a wide range of practitioners, the SPI is an open access tool that assesses the principles, actions and corrective measures implemented by an MFI to achieve its social objectives. The SPI tool works by assessing the "social process" (via a questionnaire) based on four key dimensions.

How are client capacities reinforced? How does the organization carry out its social responsibility? Social performance was measured by 15 indicators under four dimensions viz., (i) outreach to the poor & excluded, (ii) adaptation of the services and products to the target clients, (iii) improvement of social and political capital of the clients, and (iv) social responsibility of the institution. The indicators considered were - mission of the MFI, geographic & socio-economic focus on client group, tools for targeting, size of transaction, collateral, range of services, quality of service, non-financial services accessible to the clients, participation, transparency, client representatives, empowerment, human resources policy, social responsibility towards the clients, and social responsibility towards the local community.

For Objective #3: To understand the dynamics of MFIs focusing on microfinance assessment, microfinance delivery and microfinance monitoring mechanism, a questionnaire was designed for this purpose. This questionnaire comprised of 31 (both open-ended and close-ended) questions on nominal and ordinal scales. The entire questionnaire was divided into three sections. The first section comprised of seven questions that were framed to assess the creditworthiness of the borrowers. The second section comprised of twelve questions that were framed to understand the microfinance delivery system. The third section comprised of twelve questions that were framed to measure the microfinance monitoring system of the MFIs. Detailed discussion was held with the key officials of the MFIs on each of the questions and data collected accordingly.

Scope & Limitation of the Study:

The rationale of this study was based on understanding the performance of the MFIs from financial aspects, social aspects and their operational dynamics. The study was confined to the state of Assam in India and an exploratory study among the practitioners of microfinance industry was conducted. Only those MFIs registered in the state of Assam and offering microfinance services were considered for the study.

This study is limited to the measurement of social performance. Following the Structure-Conduct-Performance (SCP) paradigm of industrial organization, the impact of an organization on socio-economic and environmental dimensions follows from its structure, conduct and performance and is influenced and/or conditioned by the external environment of the organization.

Figure I: Structure-Conduct-Performance (SCP) paradigm

Structure → Conduct → Performance → Impact (on clients/non-clients, communities etc. in many dimensions)

Source: Zeller, Lapenu and Greeley, (2003)

Social performance precedes social impact[#]. The measurement of social performance involves investigating the structure of an organization (i.e. mission, ownership, management principles, relation to and care for its staff) and its conduct in the market and local and wider community (services, products, market behavior, other relations with clients and other stakeholders, including community and social/political organizations). Social performances are measured through the principles, the actions and the corrective measures implemented by the MFI (Zeller, Lapenu and Greeley, 2003: P-64). The measurement of social impact is beyond the purview of this study. The academic field of research is limited to performance measurement and operational dynamics of MFIs working in Assam. This study can be extended for a greater geographical territory and may also be useful for other NGOs/Co-operatives/Credit Unions in general.

Sample Profile:

The sample profile is briefly highlighted with the help of the following tables:-

Table III: No. & Classification of Sample MFIs

Type	No. of MFIs	in %
MFI	4	11.76
NGO	7	20.59
NGO-MFI	23	67.65

Table IV: Source of Information

Source of Information	No. of MFIs	in %
Audit Report	17	50
Filled up the required data	11	32
Published Annual Report	6	18

[#] Social impact represents the change in welfare and quality of life (in all of its dimensions) among clients and non-clients (and the wider local, national and global community) due to the activities of an organization (*Zeller, Lapenu and Greeley, 2003)*

Tab V: Total Outreach of the MFIs

Total Outreach	No. of Active Clients
Target Population	270917
Sample	246509
Percentage of Sample Outreach	90.99

Table VI: Availability of Internet Resources

Availability of Internet Resources	No. of MFIs	in %
Websites	10	29
No Website	24	71

Findings:

The summary of the findings of the research is given below –

1. The study finds that the sample MFIs were doing exceptionally well in terms of ROA[€], ROE, PM, OSS, CPB, and AOLS with respect to Indian as well as Asian MFIs' benchmarks and these results were found statistically significant at 5% level of significance.

2. The sample MFIs of Assam were found to perform at par with the Indian as well as Asian MFIs in terms of PY, WOR, RCR, DER, PTA, FSS, OER, OETA, AETA, PELP, BPLO, and ADLS.

3. The study finds that the sample MFIs were performing below the Indian and Asian MFIs benchmark on the performance dimensions of ASGP, PAR-30, BPS, LPSM, LPLO, and PALR.

4. Social performance as per the SPI tool, was measured by four dimensions viz., (i) outreach to the poor & excluded, (ii) adaptation of the services and products to the target clients, (iii) improvement of social and political capital of the clients,, and (iv) social responsibility of the institution. The sample MFIs were found to be more inclined towards the first dimension i.e., outreach to the poor and excluded. The social performance results of the sample MFIs demonstrated a strong emphasis on social collateral, tools for targeting and transparency and very less focus on social responsibility towards its clients and local community, human resource policy, empowerment, client representatives, participation, non-financial

[€]ROA = Return on Asset, ROE = Return on Equity, PM = Profit Margin, OSS = Operating Self Sufficiency, CPB = Cost Per Borrower, AOLS = Average Outstanding Loan Size, PY = Portfolio Yield, WOR = Write off ratio, RCR = Rick Coverage Ratio, DER = Debt Equity Ratio, PTA = Portfolio to Total Asset Ratio, FSS = Financial Self-sufficiency, OER = Operating Expense to Loan Portfolio, OETA = Operating Expense to Total Assets, AETA = Administrative Expenses to Total Assets, PELP = Personnel Expense to Loan Portfolio, BPLO = Borrowers Per Loan Officer, ADLS = Average disbursed loan size, ASGP = Average Salary to GNI Per Capita, PAR(30) = Portfolio at Risk (> 30 Days), BPS = Borrowers Per Staffs, LPSM = Loans per Staff Member, LPLO = Loans per Loan Officer, PALR = Personnel Allocation Ratio.

services, and range of services; and a balanced effort between mission of the MFI, size of transactions, geographic and socio-economic focus, and quality of services.

5. The social performance of the MFIs in terms of adaptation of the services and products to the target clients (Dimension-2), improvement of social and political capital of the clients (Dimension-3) and social responsibility of the institution (Dimension-4) need to be improved significantly as the SPI score of the sample MFIs under these three dimensions is very low.

6. Regarding the dynamics of the MFIs, the study concludes that majority of the sample MFIs of Assam were found to be flexible in assessing the creditworthiness of their clients and provided the service to the beneficiaries without much entry restrictions as required in the formal banking and financial institutions. It has been found that majority of the MFIs in Assam do not require any collateral before disbursing loan to their clients. The study reported that the sample MFIs of Assam were adopting different criteria to assess their clients and majority (97.1%) of the MFIs preferred to visit the client's place to assess the creditworthiness. The study further revealed that majority of the sample MFIs had a three level assessment for loan sanction. For some MFIs, these three levels of assessment are –

    (a) Agent, field officer and loan committee meeting; or

    (b) Credit officer, branch manager and operation manager; or

    (c) Compulsory Group Training (CGT), Group Recognition Test (GRT) & Branch Manager or Area Manager level assessment;

    (d) Field Coordinator assessment, Monitoring savings a/c transaction, and NABARD (National Bank for Agriculture and Rural Development) grading.

   For other MFIs, loan sanctioning procedure is very simple and final decision about the loan disbursement was taken at only one assessment level; for example, by secretary, or by executive committee, or by loan sanctioning committee, or by NABARD grading, or by a Base Line Survey.

7. On the microfinance delivery front, it has been found that the sample MFIs of Assam were prompt in their service delivery and required fewer formalities to be

fulfilled by the clients to avail a loan as well as to open a Recurring Deposit, Fixed Deposit or a Savings account with the MFIs. The study also found that some of the MFIs in Assam were violating the government regulations by collecting deposits from the public. The results of the survey indicated that the average time required by the MFIs to disburse a loan was approximately 27 days. The study concluded that the sample MFIs of Assam were flexible in understanding the genuine requirements of their clients and also disbursed emergency loan within 2-3 days without much official formalities. The study concluded that the majority of the average SHG and JLG loan size of the sample MFIs is less than Rs.35,000 and conforms to the Reserve Bank of India microfinance guidelines (published on March 3, 2011) but the majority of the individual loan size (non SHG/JLG loans) is higher than (Rs.35,000) the benchmark set by the RBI. The study also found that the sample MFIs of Assam were giving loan to their clients mostly for the income generating purposes (82%) and occasionally for repayment of old debt, medical expenses, shop or home improvement etc. The study found that the average processing fees charged by the sample MFIs of Assam was 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee[¥] to the Reserve Bank of India. The study further reported that the sample MFIs of Assam were not charging higher rate of interest from their borrowers as it fell within the limit of Malegam Committee recommendations.

8. Regarding microfinance monitoring system, the results of the survey indicated that majority of the sample MFIs of Assam conducted monthly management meeting to check the regularity of loan repayments and visited their clients on a monthly basis. In a representation made by the Government of Andhra Pradesh to the Sub-Committee, it has been argued that borrowers often have uncertain levels of income flows and they are put to great hardship to mobilize, accumulate and service a weekly repayment commitment. The present study found that majority (91.2%) of the sample MFIs of Assam had collected their loan repayments in

[¥]In order to study the present microfinance practices in India and the role played by the microfinance institutions in providing access to financial services to the poor and excluded, the Reserve Bank of India set up a Sub-Committee of the Central Board of Directors of the Reserve Bank on 28th October 2010 to study the issues and concerns in this sector under Y H Malegam, a senior member on the Central Board of Directors of the Reserve Bank of India. The Malegam sub-committee submitted its report on 19th January 2011. On 3rd May 2011, RBI accepted the some of the recommendations made by the Malegam Committee with some modifications.

monthly installment which is in line with the ordinance issued by Andhra Pradesh Government as well as the Malegam Committee (2011) guidelines. The results of the survey indicated that majority of the sample MFIs indirectly monitored the value of clients' savings and the value of enterprises' sales to assess the capacity of the borrowers' subsequent loan repayments. The study found that majority (61.8%) of the sample MFIs of Assam used to issue quarterly notice to their clients in case of non-payment of their periodic loan installments. The study also revealed that the sample MFIs of Assam had applied different means to solve the problem of non-payment of loans by adopting some techniques like, visiting the borrower, giving verbal warning, making repetitive visits, issuing official notice, understanding the reasons of non-payment, giving business guidance, threatening to file a case and lastly taking possession of the physical goods of the borrower. The study further found that majority (41.2%) of the sample MFIs of Assam had collected the loan repayments at the place of residence or work of the borrower which is not in the line of The Andhra Pradesh Micro Finance Institutions (Regulations of Money Lending) Act, 2010 as well as Malegam Committee guidelines.

It has been suggested by the Malegam Committee that the practice of sending the MFIs' loan recovery agents to the residence of the borrowers encourages the coercive methods of loan recovery. The Andhra Pradesh Microfinance Institutions (Regulations of Money Lending) Act, 2010 consider this practice under "coercive action". The study found that the average penalty charged by the sample MFIs of Assam was 4.31% of each periodic installment to be paid by the borrower. Moreover, there was no uniformity in the rate of penalty charged by the sample MFIs of Assam which varied from zero to a maximum of 100% of the periodic loan installment. The Malegam Committee also reported that some MFIs in India were collecting penalty charges and had recommended that there should not be any penalty charged from the borrowers. The Malegam Committee recommendations are still under the review of Reserve Bank of India.

Conclusion:

Based on the financial ratio analysis, it is found that sample MFIs of Assam are earning higher profitability than Indian and Asian MFIs. The portfolio at risk (PAR30) which is found to be 6.96% should be a cause for concern of the sample MFIs. The study finds that the sample MFIs are doing exceptionally well in terms of ROA, ROE, PM, OSS, CPB, and AOLS with respect to Indian and Asian MFIs benchmark. On the other hand, the study finds that the sample MFIs were performing below the Indian and Asian MFIs benchmark on the performance dimensions of ASGP, PAR-30, BPS, LPSM, and LPLO and these results are found statistically significant at 5% level of significance.

The study concludes that the overall social performance of the sample MFIs is poor and not satisfactory. It has been observed that the average social performance of the sample MFIs of Assam is higher in terms of outreach to the poor and excluded as compared to the other three dimensions viz., adaptation of the services and products to the target clients, improvement of social and political capital of the clients, and social responsibility of the institution. The social performance results of the sample MFIs demonstrated a strong emphasis on social collateral, tools for targeting and transparency and very less focus on social responsibility towards its clients and local community, human resource policy, empowerment, client representatives, participation, non-financial services, and range of services; and a balanced effort between mission of the MFI, size of transactions, geographic and socio-economic focus, and quality of services.

The study concludes that majority of the sample MFIs of Assam are flexible in assessing the creditworthiness of their clients and welcome the beneficiaries without much entry restrictions as required in the formal banking and financial institutions. It has been observed that majority of the sample MFIs do not require any collateral to provide loan to their clients whereas a few MFIs still require collateral, preferably cash, in the form of savings account balance maintained with the particular MFI. The study reveals that the sample MFIs of Assam are adopting different criteria to assess their clients and majority (97.1%) of the MFIs preferred to visit the client's place to assess the creditworthiness and there are basically three levels of assessment for loan sanction.

Regarding the microfinance delivery and monitoring practices, the study concludes that the majority of the average SHG and JLG loan size of the sample MFIs is less than Rs.35,000 and conforms to the Reserve Bank of India microfinance guidelines (published on March 3, 2011) but the majority of the individual loan size (non SHG/JLG loans) is higher than (Rs.35,000) the benchmark set by the RBI. The study reveals that some MFIs are collecting the interest payment for the entire term even in case of prepayments of the loan amount. Majority (82.4%) of the sample MFIs of Assam charge processing fees and the average processing fees charged is 1.95% of the total loan amount disbursed to a client. The study concludes that majority (41.2%) of the sample MFIs collect the loan repayments at the place of residence or work of the borrower. Majority (91.2%) of the sample MFIs collect their loan repayments in monthly installments whereas only a few MFIs collect their loan repayments in fortnightly, quarterly and half-yearly installments. Majority of the sample MFIs, indirectly monitor the repayment capacity of the borrower by observing three factors viz., (i) value of clients' savings, (ii) level of income, and (iii) increase in durable goods. The study also finds that MFIs adopts different means to solve the problem of non-payment of loans by adopting some techniques like, giving verbal warning, making repetitive visits, issuing official notice, understanding the reasons of non-payment, giving business guidance, threatening to file a case and lastly by taking possession of the physical goods of the borrower. Majority (41.2%) of the sample MFIs of Assam are collecting the loan installments at the clients' location. The study concludes that majority (55.9%) of the sample MFIs impose penalty for any delay in the periodic loan installments and the average penalty charged by the sample MFIs is 4.31% of each periodic installment to be paid by the borrower.

Thus we see that the findings of this study highlighted some issues on the performance dynamics of the sample MFIs of Assam. Microfinance sector is fast growing in India and in the state of Assam it is at a nascent stage. The microfinance sector in Assam is wholly unorganized and therefore there is lack of information about the MFIs operating in the state. For some of the important performance dimensions viz., return on assets, return on equity, portfolio at risk, debt equity ratio, operational self sufficiency, provision expenses, funding expenses, cost of funds, subsidy dependence, repayment rates, client turnover, etc. no benchmarks are available for the MFIs of Assam. The present study finds the average performance of the MFIs and also provides sample averages in these dimensions which may be considered as a benchmark and can help the future researches, practitioners, donors and other stakeholders of microfinance industry to explain the performance dynamics of the MFIs. Most of the MFIs have never done an internal evaluation of their social performance by using the SPI tool in Assam. The study also highlights the social performance of the MFIs. The study highlights some of the healthy practices of the sample MFIs of Assam. However, the study also reports that there is no uniformity in the microfinance practices and some of the MFIs are violating the Reserve Bank of India Guidelines. It is expected that the findings of this study would highlight many important issues related to the financial performance, social performance and dynamics of MFIs and may open up avenues for other relevant and useful researches in the line of the performance assessment and the dynamics of MFIs in India and abroad.

DECLARATION

I, **Mr. Arup Roy**, Research Scholar in the Department of Business Administration, under the School of Management Sciences, of Tezpur University, Assam, India, hereby declare that the thesis entitled **"Microfinance Institutions (MFIs): A Study on their Performance and Dynamics in Assam"** is bona fide research undertaken by me under the supervision and guidance of **Dr. (Mrs.) Chandana Goswami,** Professor, Department of Business Administration, Tezpur University, Tezpur, Assam. The work embodies the result of my original research and reflects advancement in this area of research.

No part of this thesis has been submitted elsewhere for award of any other degree.

(ARUP ROY)

Dated : Friday, May 25, 2012

Signature of Research Scholar

Place : Napam, Tezpur University.

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Certificate of Research Supervisor

This is to certify that the thesis entitled "***Microfinance Institutions (MFIs): A study on their Performance and Dynamics in Assam***" submitted to **Tezpur University** in the **Department of Business Administration** under the **School of Management Sciences** in partial fulfillment for the award of the degree of **Doctor of Philosophy** in Management Sciences is a record of research work carried out by Mr. Arup Roy under my supervision and guidance.

All helps received by him from various sources have been duly acknowledged.

No part of this thesis has been submitted elsewhere for award of any other degree.

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PREFACE

The modern microfinance movement was started in Bangladesh in 1970s, in the aftermath of the country's war of independence, when Muhammed Yunus, an economics professor at the University of Chittagong, began an experimental project providing credit to the rural poor of Bangladesh. Bangladesh's Nobel laureate, Muhammed Yunus proved that the poor are worthy of credit and that they honor their small loans. Envisioned by Muhammed Yunus in 1976, microfinance was initially an attempt to design a credit delivery system to provide banking services targeted at the rural poor by removing the need for collateral and creating a banking system based on mutual trust, accountability, participation and creativity. Initially microfinance evolved as a subsidized industry, but from 1990s there has been a paradigm shift from subsidy regime to commercialization of microfinance.

The advent of MFIs in the Microfinance sector appears to have resulted in a significant increase in reach and the credit made available to the unorganized sector in India. Between March 31, 2007 and March 31, 2010, the number of outstanding loan accounts serviced by MFIs is reported to have increased from 1.004 crores to 2.67 crores and outstanding loans from about Rs. 3800 crores to Rs. 18,344 crores (Malegam Committee Report, 2011). While this growth is impressive, yet there remains a regional disparity in the growth of MFIs in India. In case of Assam, it is only in 1997-98 that microfinance movement had really begun and has been rapidly picking up since then. It is more than ten years and hence it is the right time to find the overall status of MFIs operating in the state. As with any global industry, microfinance needs accepted standards by which the performance of MFIs can be measured. Common standards allow for microfinance managers and board members to assess more accurately how their institution is performing. The present study tries to find out the performance of the MFIs operating in Assam. To understand the performance of MFIs, both the financial performance and the social performance is considered. The study also helps to understand the dynamics of MFIs in terms of the microfinance assessment, monitoring and delivery that are practiced in Assam.

Dated: Friday, May 25, 2012

Place: Tezpur University, Tezpur

(Arup Roy)

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My family has always been the backbone of all my accomplishments. I could count on them during both happy times and down times. I would like to take this opportunity to mention my wife **Sarmista** and daughter **Nishtha**, born just 30 days after I formally enrolled for this study. Both of them happily agreed to lend their entire quota of my time for the purpose of this study. This debt is most invaluable since this was the time they needed me most. I would not like to repay this debt by merely saying thanks to them. I will remain indebted to them for the rest of my life. Last, but certainly not the least, special thanks are due to my mother (**Ms. Pratima Roy**) whose dream is to see me with the doctorate degree. Without my parents' blessings it would have been difficult to accomplish this long and arduous journey.

Finally, I thank Lord ***Sri Sri Anukul Thakur*** from the core of my soul for giving me strength in difficult times and showing me the right path through. I dedicate my thesis to Sri Sri Thakur. ***Jai Guru.***

(Arup Roy)

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LIST OF ABBREVIATIONS

Acronyms	Full Name
ACCESS	Access Development Services
ADB	Asian Development Bank
AIMS	Assessing the Impact of Microenterprise Services
APL	Above Poverty Line
BPL	Below Poverty Line
BM	Branch Manager
CML	Centre for Microfinance & Livelihood

CEO	Chief Executive Officer
CGT	Compulsory Group Training
CGAP	Consultative Group to Assist the Poor
CU	Credit Unions
DEA	Data Envelopment Analysis
DRDA	District Rural Development Authority
ECA	Eastern Europe and Central Asia
EMI	Equated Monthly Installment
GDP	Gross Domestic Product
GLP	Gross Loan Portfolio
GNI	Gross National Income
GRT	Group Recognition Test
HDI	Human Development Index
IFAD	International Fund for Agricultural Development
IFMR	Institute for Financial Management and Research
IFPRI	International Food Policy Research Institute
IFRS	International Financial Reporting Standards
ILO	International Labor Organisation
JLG	Joint Liability Group
KVP	Kishan Vikash Patra
LIC	Life Insurance Corporation of India
MS	Micro Soft
MIX	Microfinance Information eXchange
MFI	Microfinance Institutions
MPPI	Microfinance Penetration among Poor Index
MDG	Millennium Development Goal
NABARD	National Agricultural Bank for Rural Development
NBFC	Non Banking Financial Corporation
NGO	Non Governmental Organisation
NEDFi	North East Development Federation of India
NSC	National Savings Certificate
PAF	Poverty Assessment Framework
PAT	Poverty Assessment Tool
PCA	Principle Component Analysis
RMK	Rastriya Mahila Kosh
RRB	Regional Rural Banks
SBI	State Bank of India
SBLP	SHG-Bank Linkage Programme
SEEP	Small Enterprise Education and Promotion Network
SIDBI	Small Industrial Development Bank of India
SPI	Social Performance Indicators Initiative
SROI	Social Return On Investment
SPSS	Statistical Package for Social Science
STSTA	Statistics and Data
SGSY	Swarnajayanti Gram Swarojgar Yojana
UN	United Nations
UNCC	United Nations Conference Center
USA	United State of America
USAID	United States Agency for International Development

Chapter 1

Introduction & Motivation

CHAPTER 1: INTRODUCTION AND MOTIVATION

1. 1. Conceptual Background:

It is well recognized that microfinance is the best way that the financial sector can reach those 'at the bottom of the pyramid' (Prahalad, 2005). Microfinance's core competency is in reaching the poorest, which ordinarily remains outside the ambit of commercial banks and financial institutions. Microfinance today has become one of the most debated and documented but still hangs around much confused buzzwords in banking, inclusive growth and developmental policymaking fields. Actually in some form or the other, the concept of "microfinance" always existed in almost each and every society. But as a more formal process, the history can be traced back to portions of the Marshall Plan at the end of second world war in the middle of the 20th century and the writings of abolitionist/legal theorist Lysander Spooner who wrote about the benefits of numerous small loans to the poor as a way to alleviate poverty (Khandelwal, 2007). Microfinance was born as a response to the frustrated development resulting from subsidized rural credit in the 1950s and 1960s (Adams & Fitchett, 1992; Mersland, 2009). Some global examples of microfinance initiatives are - FINCA and ACCION International of Latin America, Bank Rakyat of Indonesia (BRI), and Grameen Bank of Bangladesh, now acting in more than 50 countries.

The modern microfinance movement was started in Bangladesh in 1970s, in the aftermath of the country's war of independence, when Muhammed Yunus, an economics professor at the University of Chittagong, began an experimental project providing credit to the rural poor of Bangladesh (Weiss & Montgomery, 2005). Microfinance since the works of McKinnon (1973) and Shaw (1973) in finance for development gained importance especially as a tool for development in developing countries. Bangladesh's Nobel laureate, Muhammed Yunus proved that the poor are worthy of credit and that they honor their small loans. Envisioned by Muhammed Yunus in 1976, microfinance was initially an attempt to design a credit delivery system to provide banking services targeted at the rural poor by removing the need for collateral and creating a banking system based on mutual trust, accountability, participation and creativity. Initially microfinance evolved as a subsidized industry, but from 1990s there has been a paradigm shift from subsidy regime to commercialization of microfinance.

Microfinance refers to the means by which poor people convert small sums of money into large lump sums (Rutherford, 1999). Specifically, it refers to the broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro-enterprises (Asian Development Bank [ADB], 2000). Thus microfinance institutions (MFIs) are special type of financial institutions. MFIs are seen to have emerged relatively unscathed from the financial crisis of the past few decades, as compared to banks and other financial institutions. During the currency crisis in East Asia and the banking crisis in Latin America in 1990s, institutions serving poor customers were found to have generally performed better financially than mainstream banks (Littlefield & Kneiding, 2009).

The microfinance revolution, particularly the success stories of institutions like Grameen Bank in Bangladesh, Banco Sol in Bolivia, and Bank Rakyat in Indonesia, attracted several economists to study microfinance in the latter half of the 1990s. The United Nations Year of Microfinance in 2005 and the Nobel Peace Prize to Mohammed Yunus in 2006 and performance of Grameen Bank till 2008, have given considerable public recognition to microfinance as a development tool. Christen et al. (2004) reports an astonishing 500 million persons served, mostly with savings accounts, while the Microfinance Summit in the 2006 meeting in Halifax celebrated the milestone of 100 million borrowers reached. Nevertheless, microfinance still reaches only a fraction of the world's poor (Robinson, 2001; Christen et al., 2004). Hence, there is a supply challenge in the industry (Helms, 2006).

Some studies argue that microfinance has very beneficial economic and social impacts (Hossain, 1988; Remenyi, 1991; Otero & Rhyne, 1994; Holcombe, 1995; Schuler, Hashemi & Riley, 1997). A number of studies have shown a significant impact on the lives of people benefiting from microfinance services across a wide range of economic and social indicators, including better access to education for the children, greater empowerment of women, economic upliftment, and increased participation of women in social and political activities (Fisher & Sriram, 2002;

Robinson, 2001; Simanowitz & Walter, 2002; Todd, 2000; Yunus 2004; Zohir & Martin, 2004). More than half of the Grameen Bank borrowers in Bangladesh (close to 50 million) have risen out of acute poverty with the help of microcredit. This is according to measures such as having all children of school-going age in school, all household members eating three meals a day, having a sanitary toilet, clean drinking water, a rainproof house, and capable of reimbursing a 300 Taka a week ($8) loan (Khandelwal, 2007). Starting its journey from 1976 onwards, the Grameen Bank had lent microcredit loans worth Tk 290.03 billion to 86 per cent of villages in Bangladesh; of the 6.67 million borrowers. In Bangladesh, 97 per cent were women as on May 2006 and the repayment rate was nearly 99 per cent (Yunus, 2006). Looking at this vast potentiality of the microfinance sector, the United Nations General Assembly had declared 2005 as the International Year of Microcredit to recognize the contribution and importance of microfinance in poverty alleviation.

Solving the problem of poverty in this modern era is a big global question. That is the question, the 2006 Nobel Peace Prize laureate Muhammad Yunus sets out to answer in his work - Creating a World without Poverty (2007). He coined the concept of 'Social Business', as a viable solution to world poverty. According to him, social business is not primarily a charitable organization, but a competitive enterprise, restricted from making losses or paying dividends, working to provide charitable rather than business goals. The major contribution and importance of the concept of 'social business', according to Yunus, is that it brings the benefits and advantages of free-market competition to social improvement (Yunus, 2007). However, it is not clear how the performance of a social business can be measured without considering monetary profit.

Limited finance lowers welfare and hinders poverty alleviation, and a lack of credit to the economy impedes growth (Gulde & Pattillo, 2006). The microfinance industry as a whole is growing fast, adding 13 percent more borrowers each year since 1999 (Hashemi, 2007). Microfinance thus emerged as a new approach to fight poverty. It provided the poor with a safe and reliable place to save money in small amounts and borrow when they needed it. Microfinance also helped the poor to access other basic services which were not normally accessible to them due to their poverty, illiteracy, or locational disadvantage. Microfinance appeared to offer a "win-win" solution, where both financial institutions and poor clients profited (Morduch, 1999). Microfinance has emerged as a powerful tool to help the world's poorest people to lift themselves out of poverty, and improve their entire socio-economic status. A review of around 100 impact studies on microfinance since 1986 found a wide range of evidence that microfinance programs can increase incomes and lift families out of poverty. Thus, microfinance is claimed to be a powerful tool, which can be used effectively to address poverty, empower the socially marginalised poor and strengthen the social fabric; and when it is directed at women, the benefits accruing out of the microfinance activities are expected to multiply manifold (Khandelwal, 2007). Beyond being "banking for the poor," microfinance is now viewed by many as an instrument that will aid development of the society.

1.2. Microfinance through SHGs & MFIs in India

Microfinance sector has covered a long journey from micro savings to micro credit and then to micro enterprises and now entered the field of micro insurance, micro remittance, micro pension and micro livelihood. This gradual and evolutionary growth process has given a great boost to the rural poor in India to reach reasonable economic, social and cultural empowerment, leading to better life of participating households. Microfinance Institutions (MFIs) are an extremely heterogeneous group comprising NBFCs, Societies, Trusts, and Cooperatives. Some MFIs are self-sufficient and some are provided financial support from external donors and apex institutions like Rastriya Mahila Kosh (RMK), DRDA, SIDBI Foundation for micro-credit, and NABARD. Though initially only a handful of MFIs were into the financial intermediation using a variety of delivery methods, their numbers have increased considerably now. Generally there are two models of microfinance involving credit linkage with banks:

(i) *Self Help Group (SHG) - Bank Linkage Model:* This model involves the SHGs financed directly by the banks viz., Commercial Banks (Public Sector and Private Sector), Regional Rural Banks (RRBs) and Cooperative Banks.

(ii) *MFI - Bank Linkage Model:* This model covers financing of Micro Finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers covered under microfinance sector.

SHG-Bank Linkage Programme, since its pilot in 1992, has emerged as the leading microfinance programme in the country. It is recognised as an effective tool for extending access to formal financial services to the unbanked rural poor. Encouraged by the success, the programme has been adopted by State Governments as a major poverty alleviation strategy. It has also led to the emergence of microfinance institutions (MFI) as a bridge between the banking sector and the rural poor (Roy, 2011c).

SHGs consist of a group of 15-20 people who come together with the objective of creating a financial cushion in times of individual or collective exigencies. The concept of SHG was introduced in India by NABARD in 1992, inspired by its success in Bangladesh. Today, it is the largest rural development programme, going on with the active cooperation of NABARD, SIDBI, DRDAs and NEDFi. NABARD emphasizes growth of strong and efficient SHGs internal loans to its members for productive purposes, irrespective of APL (above poverty line) or BPL (below poverty line) families. DRDA, under its Swarnajayanti Gram Swarojgar Yojana (SGSY) emphasizes on the growth of SHGs among BPL families for fulfilling the objective of poverty alleviation. NEDFi, under its microfinance scheme, lends a minimum of Rs. 20,000 and a maximum of Rs. 4 lakhs to an SHG with good record for on-lending to the needy for taking up productive activities. Prime lending rate and administrative charges are decided by NEDFi. The SHG movement in southern states of India has been successful to a great degree in uplifting the socio-economic conditions of the down-trodden. The Andhra Pradesh Government had taken up the theme of women's empowerment (through SHGs) as one of the strategies to tackle poverty. All villages in the state have at least one SHG and 75% of the villages have 15-20 groups in each. Nearly 60% of the women took up activities like vegetable and flower cultivation, food crops, pulses and oil seeds cultivation on leased land. Small business activities, producing handicrafts and handloom items etc. are also taken up by 25% of the poor women force. The SHG movement in Andhra Pradesh has helped significantly in reducing rural poverty to 11% by 1999-2000 (Thomas, 2003).

Table 1.1: Progress of the Microfinance Programme (As on 31 March)

Particulars		2007-08		2008-09		% Growth of (2008-09)		2009-10		% Growth of (2009-10)	
		No. of SHGs	Amt.	No. of SHGs	Amt.	SHGs	Amount	No. of SHGs	Amt.	SHGs	Amount
A. SHG-Bank Linkage Model											(Amount in Crores)
Savings of SHGs with Bank as on 31 March	Total SHGs	5009794	3785	6121147	5545	22.2	46.5	6953250	6198	13.6	11.8
	Out of which SGSY	1203070	809	1505581	1563	25.1	93.1	1693910	1292	12.5	-17.3
Bank Loans disbursed to SHGs during the year	Total SHGs	1227770	8849	1609586	12254	31.1	38.5	1586822	14453	-1.4	17.9
	Out of which SGSY	246649	1857	264653	2015	7.3	8.5	267403	2198	1	9.1
Bank Loans outstanding with SHGs as on 31 March	Total SHGs	3625941	16999	4224338	22680	16.5	33.4	4851356	28038	14.8	23.6
	Out of which SGSY	916978	4816	976887	5861	6.5	21.7	1245394	6251	27.5	6.6
B. MFI-Bank Linkage Programme											(Amount in Crores)
Particulars		2007-08	2008-09			% Growth of (2008-09)		2009-10		% Growth of (2009-10)	
		No. of SHGs	Amt.	No. of SHGs	Amt.	SHGs	Amount	No. of SHGs	Amt.	SHGs	Amount
Bank Loans disbursed to MFIs during the year		518	1970	581	3732	12.2	89.4	691	8062	18.9	116
Bank Loans outstanding with MFIs as on 31 March		1109	2748	1915	5009	72.7	82.2	1513	10147	-21	102.6

Source: NABARD Report on Status of Microfinance in India 2009-10.

From Table 1.1, it is evident that the growth rate in the number of SHGs in India has declined from 22.2% to 13.6% during 2008-09 to 2009-10. During the same period, the growth rate in the savings amount of SHGs with the banks had declined from 46.5% to 11.8%. SHGs registered a negative growth rate of – 1.4% in 2009-10 which was 31.1% in 2008-09. On the other hand, the growth of MFIs has increased to 18.9% from 12.2% during the same period. At the same time, the amount of bank loans disbursed to MFIs has increased from 89.4% to 116% during 2008-09 to 2009-10. This shows that the MFIs are gaining popularity over the SHG-bank linkage programme in India.

The advent of MFIs in the Microfinance sector appears to have resulted in a significant increase in reach and the credit made available to the unorganized sector in India. Between March 31, 2007 and March 31, 2010, the number of outstanding loan accounts serviced by MFIs is reported to have increased from 1.004 crores to 2.67

crores and outstanding loans from about Rs. 3800 crores to Rs. 18,344 crores (Malegam Committee Report, 2011). While this growth is impressive, yet there remains regional disparity in the growth of MFIs in India.

The agencies operating in the Microfinance Sector in India can be broadly grouped in two classes namely:-

(a) The SHG-Bank Linkage Programme (SBLP) and
(b) MFIs including NBFC-MFIs, trusts, societies, etc. where NBFC-MFIs hold more than 80% of the outstanding loan portfolio.

Table 1.2: Overview of MFIs in India

Particulars	2007-2008	2008- 2009	2009- 2010	% Growth over 2 years
No. of Customers (million)				
SBLP	50.8	59.1	64.5	26.96
MFI	14.1	22.6	26.7	189.36
Total	64.9	81.7	91.2	140.52
Portfolio Outstanding (Rs. Billion)				
SBLP	166.99	226.79	272.66	63.27
MFI	59.54	117.34	183.44	308.09
Total	226.53	344.13	456.10	201.34
Incremental Loans Outstanding (Rs. Billion)				
SBLP	46.33	56.80	45.87	(0.01)
MFI	24.98	57.80	66.10	246.61
Total	71.31	114.60	111.97	157.01

Source: Malegam Committee Report, 2011

Thus it has been observed that the number of customers of the MFIs is growing at an exponential rate of 189% which is a rare phenomenon in the growth rate of any industry in any economy. Moreover, the portfolio of the MFIs is also growing substantially at 308% over the last two years. The above statistics shows exceptional results for overall India.

There are conflicting estimates regarding the total demand for microfinance in the country and the extent of penetration. However, all these estimates confirm the fact that the present amount of microfinance provided by both SHGs and MFI is a small portion of the total demand. Access Development Services (ACCESS) in its "Microfinance India-State of the Sector Report 2010" by Srinivasan (2010) gives an estimate of the distribution of microfinance penetration in the country. For this purpose it has published a Microfinance Penetration among Poor Index (MPPI) which measures the share of a region in microfinance clients divided by the shares of the region in the total population of poor in the country. The index is as under:

Table 1.3: Microfinance Penetration among Poor Index (MPPI) of India

Region	MPPI
North	0.41
North East	0.71
East	0.74
Central	0.32
West	0.81
South	3.4

Source: Srinivasan (2010)

Table 1.3 shows that the level of penetration in the South is more than four times the penetration in the second highest region, namely the West and over ten times the penetration in the least penetrated region, namely the Central. This concentration of total microfinance activity in the South is paralleled by the distribution of MFI portfolio as between the regions. The distribution of the MFIs loan portfolio is given below.

Table 1.4: Distribution of MFIs' Portfolio

Region	% of Portfolio
North	4.27
North East	1.75
East	22.53
Central	9.88
West	6.75
South	54.81

Source: Malegam Committee Report, 2011

The SHG-Bank Linkage Program (SBLP) has also proved to be successful in southern states but failed to achieve its goal to benefit poorer states. SBLP was conceived to fill the existing gap in the formal financial network and extending the outreach of banking to the poor (Roy, 2011c). While Table 1.4 shows that the Southern region has an overwhelmingly large share of the MFI portfolio, it also shows that this share is only a little over twice the share of the region with the next highest share, namely the East but significantly higher than the share of other regions. This supports the complaint that MFIs have been concentrating in the Southern region where SHGs are well developed while neglecting the other regions.

1.3. The Problem Area

From the foregoing discussion, it is apparent that the growing demand of microfinance has generated considerable interest among donors, lenders, investors, customers, practitioners and researchers. The last two decades have seen a growing push for transparency in microfinance. An important aspect of this trend has been the increasing use of different indicators to measure the performance of microfinance institutions (MFIs). As with any global industry, microfinance needs accepted standards by which the performance of MFIs can be measured. Common standards allow for microfinance managers and board members to assess more accurately the performance of their institutions. Institutions that apply industry standards are more transparent—it makes it harder to hide or obscure bad performance and easier to benchmark good performance. For MFIs, industry-wide standards can make reporting to donors, lenders, investors and this would be easier to do if the recipients of the reports are also in agreement with the standards. Common standards provide the language that enables MFIs to communicate with other participants in the industry, whether they are down the street or across the ocean.

Over the last decade, the microfinance field has expanded substantially both in terms of number of institutions and the size of these institutions. While such scaling up is applauded for its progress in spreading the benefits of microfinance services to a greater number of poor and for achieving sustainability, there is a concern that scaling-up may lead to a drift from the microfinance institutions original poverty alleviation mission (Hishigsuren, 2004). Christen et al., (2004) reported an astonishing 500 million persons served, mostly with savings accounts, while the Microcredit Summit in the 2006 meeting in Halifax had celebrated the milestone of 100 million borrowers reached. These worldwide developments promoted the acceptance of microfinance as a poverty reduction tool and greater emphasis was begun to be given on the performance of the microfinance institutions. There is scope for large-scale and profitable microfinance because commercial moneylenders often extract monopoly profits from their borrowers and are not in close contact with their borrowers like MFIs. In this context, MFIs are more capable of sorting clients and enforcing contracts as the problem of the adverse selection and moral hazard arguments because of the asymmetric information paradigm is very less for MFIs

(Robinson, 2001). Microfinance institutions are special financial institutions. They have both a social nature and a for-profit nature. Thus, the performance measurement and dynamics of the MFIs is considered as the major area of this study.

1.4. Statement of the Problem

Assessment of performance of the MFIs is useful for customers, donors, investors and practitioners. Donors want to know whether their support for microfinance programs conforms to the focus and priorities of their agencies. Practitioners want to know whether they are reaching their program objectives and how to improve their services by comparing their performance to the industry benchmarks. The performance of the MFIs needs to be monitored and regulated. For doing this, one requires adequate information of various kind like financial parameters, social contribution etc. considering the special nature of the MFIs. Thus, the performance of the MFIs can be measured from various dimensions.

Past literatures reveal that some studies were conducted in Latin America, Europe and Asia including starting from the year 1994 to measure the performance of MFIs. Some researchers assessed the performance of MFIs in terms only financial sustainability (Khandekar, Khalily, & Khan, 1995). Then some researchers measured the MFIs' performance with respect to sustainability and outreach (Hulme & Mosely 1996; Cull, Kunt, & Morduch 2007). There was a shift in the trend of MFI performance measurement from financial self-sustainability to operational self-sustainability (Meyer, 2002). Jansson et al., (2002) introduced the concept of risk measurement of MFIs. Till 2002, the performance was viewed from the dimension of financial measurement and outreach. Then, Zeller and Meyer (2002) added a new dimension of performance measurement in the form of impact study. For the first time in 2003, the concept of social performance measurement of MFIs was used by Zeller, Lapenu and Greeley. After 2004, many researchers have shown their interest in the performance measurement in terms of governance (Hartarska, 2005; Mersland & Strom 2008), managerial expertise and technology (Qayyum & Ahmad 2006).

Most of the studies considered the two parameters viz., outreach and sustainability for the MFIs' performance measurement (Congo, 2002; Lapenu & Zeller, 2002; Jansson et al., 2002; Sanjay & Sinha, 2002; Godquin, 2004; Koveos, & Randhawa, 2004; Lafourcade, Isern, Mwangi, & Brown, 2005; Satta, 2006; Luzzi & Weber, 2006; Gregoire & Tuya, 2006; Cull, Demirguz-Kunt, & Morduch, 2007; Mersland & Strøm, 2008; Kereta, 2007; Berguiga, 2008).

Very few studies were conducted to measure the social performance of MFIs (Zeller, Lapenu, & Greeley, 2003; Berguiga, 2008). Some studies were also conducted to measure the efficiency of MFIs (Baumann, 2004; Gutiérrez-Nieto, Serrano-Cinca, & Molinero, 2007, 2009; Nghiem, 2007; Bassem, 2008).

In India also many studies are conducted by various autonomous agencies like NABARD, NEDFi, SIDBI, DRDA, RGVN etc. including RBI from time to time. These organizations practice microfinance. Most of the studies are on the impact assessment of the beneficiaries of microfinance. Very few studies are conducted on microfinance at the university level in India. Most of the studies focus on Self-Help Groups (Agarwal, 2007; Gopisetti, 2007; Gaonkar, 2008; Sarkar, 2008; Nagarajan, 2009). Some studies are also conducted on poverty reduction and empowerment (Prakash, 2009). Some researchers have also worked on group based credit programmes (Sarangi, 2008). There were some studies where the researcher has evaluated the performance of Regional Rural Banks (Abdul, 2005). Some studies were found to focus on the relationship between microfinance and micro-enterprises (Kanaskar, 2008; Natarajan, 2007).

In most of the past studies, the performances of MFIs were measured only in financial terms. Measuring the performance of the MFIs based on a single criterion was not acceptable to the stakeholders of the microfinance industry as this did not appear to be a rational approach. That is why, later on, researchers and many developmental organizations tried to assess the MFIs based on multiple dimensions. Past experiences, the special nature and goal of the MFIs revealed that traditional measures used for the assessment of the majority of the financial institutions were not applicable to the microfinance sector. Moreover, the ever challenging and dynamic environments in which MFIs operated emphasized the need for developing multifaceted, rather than single, assessment methodologies. Consistent with the need to continue to better understand and find ways and means of improving the situation of microfinance industry, this study is an attempt to find out the status of the MFIs operating in Assam.

Microfinance industry is an emerging industry and growing at a fast rate, spreading its benefits mostly to the poor people. In India, NABARD has been involved since 1990s for the development of microfinance industry. India as a whole is performing well in this industry but there remains regional disparity. The state of Assam belongs to the North-Eastern region and is a major player in the microfinance sector in the entire North-Eastern region. As discussed earlier (Table 1.4), the distribution of the MFIs' portfolio in the North-Eastern region of India is very low compared to the other regions. Thus it is seen that there is lot of potential for the growth of microfinance industry in Assam. In case of Assam, it is only in 1997-98 that microfinance movement had really begun and has been rapidly picking up since then. It is more than ten years and hence it is the right time to find the overall status and performance of MFIs operating in the state.

Thus it has been observed so far that many studies were conducted to measure the financial performance but very few focused on social performance and dynamics in Asia, Europe and Latin America. In India, some studies were conducted on performance measurement of MFIs but so far no study has been conducted on the performance measurement of MFIs of Assam in terms of financial and social dimensions. Hence there remains a gap. This study is an attempt to fill up the gap by undertaking the proposed research work. The present study tries to find out the performance of the MFIs operating in Assam. To understand the performance of MFIs, both the financial performance and the social performance is considered. The study also helps to understand the dynamics of MFIs in terms of the microfinance assessment, monitoring and delivery that are practiced in Assam.

1.5. Research Queries

The fact that Microfinance Institutions (MFIs) tend not to operate in the same way as traditional banks, does not mean that they are not interested in profitability and efficiency issues. However, existing tools to assess the performance of traditional banking institutions may not be appropriate. Followings are some of the few research questions that this study would address:-

- Who do MFIs aim to reach?
- Are MFIs reaching the "poor and excluded"?
- Are MFIs providing appropriate, quality services?
- Should we assess microfinance institutions' performance the way banks do, taking into account of the financial inputs and outputs?
- How can we assess the overall performance of the microfinance institutions?
- How to measure the financial performance of MFIs?
- How to measure the social performance of MFIs?
- How should we compare MFIs?
- How are the MFIs of Assam performing compared to the Indian MFIs?
- How are the MFIs of Assam performing compared to the Asian MFIs?
- How microfinance assessment (i.e., assessing creditworthiness of its clients) is done by various MFIs in Assam?
- How do the MFIs monitor their microfinance products and services in Assam?
- What are the microfinance delivery systems that are practiced by the MFIs in Assam?

1.6. Work at a Glance

With the above mentioned research queries under consideration, this study aims to achieve the following three objectives:-

(i) To measure objectively the performance of selected microfinance institutions using financial parameters;
(ii) To measure objectively the performance of selected microfinance institutions using social parameters;

(iii) To understand the dynamics of MFIs in terms of their microfinance assessment mechanism, delivery system and monitoring system.

The research was based on primary as well as secondary data. First, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) was considered. From this CML data base, only those MFIs that are continuing microfinance operations in Assam for the last three financial years, from FY 2007-08 to FY 2009-10 were selected. Finally 34 MFIs (43% of the target population) spread across 14 districts of Assam were considered for the study.

To measure the financial performance of selected microfinance institutions of Assam, thirty financial ratios were used under six performance dimensions viz., profitability, risk, financial management, sustainability, efficiency and productivity. Using the Social Performance Indicators (SPI) tool, an internal evaluation of the social performance of the MFIs of Assam was conducted in light of four fundamental dimensions viz., viz., (i) outreach to the poor & excluded, (ii) adaptation of the services and products to the target clients, (iii) improvement of social and political capital of the clients, and (iv) social responsibility of the institution. To understand the dynamics of MFIs focusing on microfinance assessment, microfinance delivery and microfinance monitoring mechanism, a questionnaire was designed for this purpose. The research methodology is discussed in detail in chapter 3.

1.7. An Overview of the Thesis

The lack of universally understood indicators for measuring the overall performance of MFIs has been emphasized in chapter 1. Assessment of the MFIs based on multiple dimensions has been shown as an important consideration for the overall performance measurement of the MFIs. The study area has also been proposed here. Statement and definition of the problem has also been given in this chapter.

Review of available literatures with respect to the performance measurement of the MFIs has been presented in chapter 2. A scientometric analysis of literature on performance assessment of microfinance institutions has been conducted for the period 1995-2010.

Chapter 3 outlines the objectives of the study, describes the concepts and related variables of the study. A brief overview of tools available and used for the study and merits of their selection has also been provided in this chapter.

Financial performance of the MFIs of Assam has been illustrated in chapter 4. Financial performance of the MFIs for the last three years has been shown and a comparison has also been made with the available National and Asian MFIs' Benchmark ratios. Financial performance of the MFIs has been explained under six dimensions viz., (i) profitability, (ii) portfolio risk, (iii) financial management, (iv) sustainability, (v) efficiency, and (vi) productivity.

In chapter 5, the social performance of the MFIs of Assam using the SPI tool has been measured and ranked. The social performance has been explained under four performance dimensions viz., (i) Outreach to the poor & excluded, (ii) Adaptation of the Services & Products to the Target Clients, (iii) Improvement of social and political capital of the clients and (iv)Social Responsibility of the institution.

Chapter 6 discusses the dynamics of the MFIs of Assam in terms of microfinance assessment, monitoring and delivery mechanisms.

Summary of the study, specific contribution made through the study, recommendations, and scope for future work has been presented in chapter 7. Conclusion from the study has also been drawn and presented in this chapter.

Chapter 2

Literature Review

CHAPTER 2: REVIEW OF LITERATURES

2.1. Introduction

Microfinance is an effective instrument to reach the Millennium Development Goals (MDGs) (Kooy, 2009). Microfinance is one of the practical development strategies and approaches that should be implemented and supported to attain the bold ambition of reducing world poverty by half (UN Millennium Project[1]). The UN 2005 World Summit recognized the need for access to financial services, in particular for the poor, both through microfinance and microcredit. These worldwide developments promoted the acceptance of microfinance as a poverty reduction tool and greater emphasis was begun to be given on the performance of the Microfinance Institutions (MFIs).

Past experiences, the special nature and goal of the MFIs revealed that traditional measures used for the assessment of the majority of financial institutions were not applicable to the microfinance sector. Moreover, the ever challenging and dynamic environments in which MFIs operated emphasized the need for developing multifaceted, rather than single, assessment methodologies.

MFIs are special financial institutions having a social nature along with for profit nature. Their performance measurement has to be different from the usual methods that are applied by other financial institutions like banks, NBFCs, etc. because of the social aspect. During 1990s, many researchers suggested a framework, based on the dual concepts of outreach and sustainability, for the assessment of MFIs performance (Yaron, 1992, 1994, 1997; Gurgand et al., 1994; Larrivière & Martin, 1998; Gibbons & Meehan, 1999; Kereta, 2007). In 1995, a consortium of 33 public and private development agencies created the Consultative Group to Assist the Poor (CGAP) to expand access to financial services for the poor in developing countries. In 1996, CGAP also suggested the use of outreach and sustainability as two key criteria to evaluate the performance of MFIs. In terms of financial sustainability, Khandker et

[1] The United Nations Millennium Project is an independent advisory body commissioned by the UN Secretary-General to propose the best strategies to meet the Millennium Development Goals (MDGs). Ten thematic task forces of more than 250 global experts contributed to the analytic work. A synthesis report entitled "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals" captures the main findings and recommendations of the Task Force reports.

al., (1995) pointed out that loan repayment (measured by default rate) may be an indicator for financial sustainability of MFIs because low default rate would sustain its lending business. On the other hand, Hulme and Mosely (1996) argued that there is inverse relationship between outreach and financial sustainability. According to them, higher outreach means higher transaction costs in terms of processing information to judge creditworthiness of clients and hence will make MFIs financially unsustainable.

Llanto, Garcia and Callanta (1997) assessed the capacity and financial performance of microfinance institutions. According to them, outreach to the poor depended on effective targeting and exclusivity of focus; institutional capacity; range of financial services provided; technical assistance for poor clients; regular or periodic impact evaluation of credit programs for the poor. Congo (2002) tested the performance of microfinance institutions (MFIs) in Burkina Faso using indicators such as the sustainable interest rate and the subsidy dependence index (SDI). Abate et al., (2002) defined a set of indicators using ratio analysis that helps to measure the financial condition, performance, and risk of MFIs. They considered four dimensions viz., portfolio quality, productivity, financial management, and profitability.

Godquin (2004) presented a comprehensive analysis of the performance of MFIs of Bangladesh in terms of repayment. He analyzed the impact of group lending, non-financial services, and dynamic incentives on repayment performance.

Koveos and Randhawa (2004) analyzed the framework within which MFIs deliver their services and provided an assessment of their operations and financial management. They used Balanced Scorecard Approach which includes four measurement perspectives: the financial perspective, the customer perspective, the internal-business processes perspective, and the learning and growth perspective. Financial measures were used, but it was integrated with other significant measures. Lafourcade, Isern, Mwangi, and Brown (2005) assessed outreach and financial performance of MFIs in Africa with 22 indicators. Luzzi and Weber (2006) offered new insights in the context of MFIs performance evaluation by using some statistical tools like factor analysis and cluster analysis.

Crombrugghe, Tenikue and Sureda (2008) conducted performance analysis for a sample of 42 MFIs in India. They used regression analysis to understand the determinants of self-sustainability. They investigated particularly three aspects of sustainability: cost coverage by revenue, repayment of loans and cost-control. Cull, Demirgüç-Kunt, Morduch (2007) assessed financial performance and outreach by conducting a global analysis of leading Microbanks and explored patterns of profitability, loan repayment, and cost reduction of 124 institutions in 49 countries. Barres et al., (2005) measured performance of MFIs and provided a framework for reporting, analysis, and monitoring.

In the context of performance measurement, many researchers studied the efficiency of MFIs (Gutiérrez-Nieto, Serrano-Cinca, & Molinero, 2005; Bassem, 2008; Gutierrez-Nieto, Serrano-Cinca, & Molinero, 2007; Nghiem, 2007; Qayyum & Ahmad, 2007). These researchers provided an alternative to the use of Ratio Analysis by applying the non-parametric Data Envelopment Analysis (DEA) technique. Kneiding and Mas (2009) studied the efficiency drivers of MFIs with emphasis on the role of age of the institutions and found that every single cohort of MFIs were able to continually improve efficiency over time.

Presently, some researchers are considering corporate governance to be one of the important performance measurement criteria and are trying to examine how selected governance indicators impact on performance measures of outreach and profitability in MFIs (Mersland & Strom, 2009; Kyereboah-Coleman & Osei, 2008).

Till 2003, performances of MFIs were measured by financial parameters and outreach indicators. For the first time, Zeller, Lapenu and Greeley (2003) developed a conceptual framework for defining social performance in the MFI sector. They suggested a set of operational indicators designed to measure the different dimensions and elements of social performance of MFIs. Social performance was measured along four main dimensions viz., outreach to the poor and the excluded, adaptation of services and products to target clients, improving clients' social and political capital, and social responsibility of the MFI. Berguiga (2008) measured the social performance and financial performance of MFIs and studied their relationships. Guti´errez-Nieto, Serrano-Cinca and Molinero (2009) measured social efficiency in microfinance institutions in relation to financial and social outputs using data envelopment analysis.

2.2. Methodology of Literature Review

In this study, an attempt has been made to find out the status of performance assessment of the MFIs based on available literature. To attain this objective, a search was undertaken to find papers specifically written on the performance assessment of the MFIs. The search was limited to 6 journal portals viz., (i) Elsevier Science, (ii) Emerald, (iii) JSTORE, (iv) Springer Link, (v) Taylor and Francis, and (vi) Wiley Blackwell. The following table highlights the total numbers of journals contained in the six journal portals.

Table 2.1: Profile of Journal Portals

Journal Portals	Total Number of Journals
Elsevier Science	900
Emerald	29
JSTORE	1401
Springer Link	1389
Taylor and Francis	1365
Wiley Blackwell	489
Total	5573

As the topic under study is multidisciplinary, so an overall search of all these 5573 articles were made with respect to the publication title. The search was limited to those articles which had the word 'microfinance' in the title of the article. From this set, a second search was made for those articles that focused on performance of MFIs. Finally, 71 article titles which featured the performance management aspects of the MFIs were studied for the review of the literatures on the performance of MFIs.

2.3. Sources of Literatures

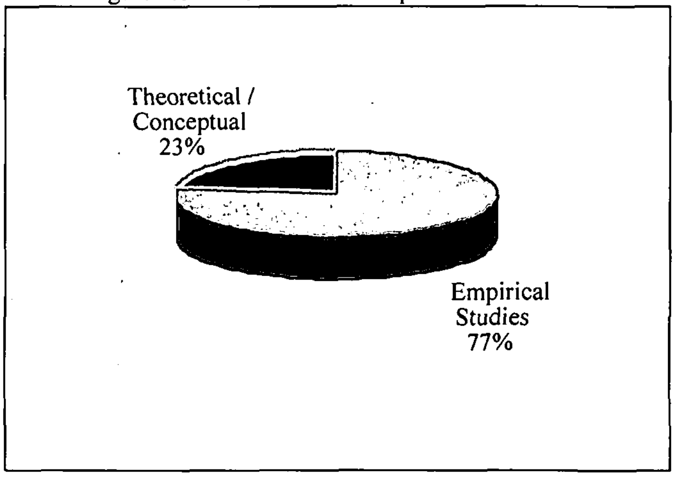
Papers published in international peer-reviewed journals, reports of various development organizations, university reports and international conference publications were found on the performance assessment of MFIs as a result of the search made in the above mentioned six journal portals. The amount of research work done specifically on the performance measurement of MFIs is very limited. A total of

71 articles published in 28 international peer-reviewed journals, 21 reports of developmental organizations, 19 university reports and 3 conference proceeding publications were found in the six journal portals mentioned above. The criterion for selecting these research papers was that they focused on MFI assessment.

2.4. Type of Research:

The following diagram shows the status of microfinance research work in terms of theoretical and empirical studies.

Figure 2.1: Theoretical Vs. Empirical Studies



In the literature of performance measurement of MFIs, theoretical or conceptual works comprises of only 23% of the total studies conducted, the rest 77% of the works are empirical in nature.

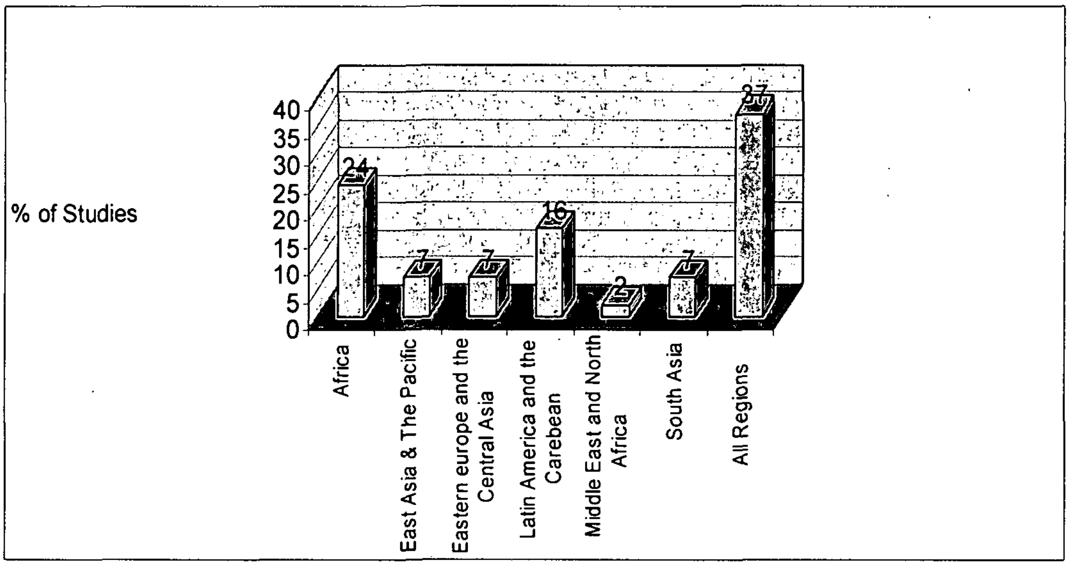
2.5. Geographical Coverage of Empirical Studies:

In this section, the geographical spread of the empirical studies conducted so far on the performance measurement of MFIs is presented. Unlike empirical works, theoretical works do not require any sample region as they are based on the fundamental philosophy of a particular subject. So, the focus is on the geographical coverage of the empirical studies on MFIs. The complete list of the empirical studies conducted in various countries, given in Annexure – X, has been classified into the following seven world regions:-

1. Africa
2. East Asia and the Pacific
3. Eastern Europe and the Central Asia
4. Latin America and the Caribbean
5. Middle East and North Africa
6. South Asia
7. All Regions

It has been found that MFIs in the two regions viz., Africa and the Latin America and the Caribbean are top favorites by the researchers to conduct such studies. There have been some studies on the MFIs' performance measurement in the three regions viz., (i) East Asia, (ii) Eastern Europe and the Central Asia, and (iii) South Asia, which accounted for 7% each of the total empirical studies. On the other hand, it was seen that very few studies had been conducted in the Middle East and the North America, which accounted for only 2% of the empirical studies.

Figure 2.2: Geographical Coverage of the Empirical Studies



2.6. One Dimension Approach to the Assessment of MFIs

Assessment of MFIs is useful for clients, donors and practitioners. Donors want to know whether their support for microfinance programs conforms to the focus and priorities of their agencies. Practitioners want to know whether they are reaching their program objectives and how to improve their services by comparing their performance with industry benchmarks. The performance of the MFIs can be measured from various dimensions. But some researchers evaluated the performance of MFIs in terms of a single dimension. Like any other business organisations, the overall performance assessment of MFIs was done only in terms of financial performance (Tucker, 2001; Abate et al., 2002; Stauffenberg, Jansson, Kenyon, & Barluenga-Badiola, 2003; Barres, et al., 2005; Tulchin, et al., 2009).

Measuring financial performance became a necessity for most of the MFIs because of rising competition among growing numbers of MFIs for funding. Tucker (2001) measured financial performance of 17 Latin American MFIs and compared to benchmark performance ratios for the industry and with commercial Latin American banks. Tucker used some financial ratios like, return on asset (ROA), gross financial margin, debt to equity, equity to gross portfolio, portfolio at risk (>30 overdue), loan loss reserves to loans (>30 days overdue) etc. to measure financial performance of MFIs. The study concluded that comparisons with benchmarks can alert management and those that fund MFIs to how well or poorly an MFI is performing. Tucker also concluded that by revealing weaknesses, benchmark measures can be used as a guide to focus resources and upgrade management practices. This can help MFIs at the lower end of the performance scale that have management less familiar with superior or even standard business practices, such as using management information systems to the greatest advantage, projecting future cash flows, and planning.

In 2001, the lack of universally understood indicators in microfinance led the Inter-American Development Bank (IDB), the Consultative Group to Assist the Poorest (CGAP), the United States Agency for International Development (USAID), MicroRate (a specialized microfinance assessment firm), M-CRIL (in India), and PlaNet Rating (in France) agreed on the names and definition of a set of commonly used financial indicators. The main objective of this group was not to select the "best" indicators or to try to interpret them, just to discuss names and definitions. Abate et al., (2002) proposed definition, interprets its meaning, identifies potential pitfalls in its use, and provides benchmark values for 20 Latin American microfinance institutions compiled by MicroRate. In this report, the performance of the MFIs was measured by some financial ratios like ROA, return on equity (ROE), portfolio yield, financial expense ratio, cost of funds, liquidity Ratio, debt to equity ratio etc.

Barres et al., (2005) provided a framework to measure the performance of the microfinance institutions which could be used for meaningful analysis, reporting and monitoring in accordance with International Financial Reporting Standards (IFRS). The main objective of this framework was to assist MFI managers in developing a consistent performance monitoring system based on international standards that can assist managers in making decisions, informing boards of directors, and reporting to donors, investors, and other interested parties. The framework, which used the financial definitions guidelines as its basis, included the definitions and calculations of financial ratios in the industry.

Tulchin et al., (2009) proposed new financial ratios for the measurement of the financial performance of MFIs. This study intended to address current industry evolution, address the gaps of the framework proposed by Barres et al. (2005) and anticipated advances in microfinance in the coming years with the help of the following ratios viz., capital adequacy ratio, uncovered capital ratio, foreign currency risk ratio, average deposits balance per account, yield on liquidity and investments, savings liquidity, effective financial expense of savings, effective operating expense of savings. This study helped to increase informative measures of capital adequacy positions and savings of microfinance institutions.

Many researchers felt that although financial performance is important but it is not sufficient enough to assess the overall performance of MFIs. Some researchers considered that only sustainability measures the overall performance of the MFIs (Schreiner, 1999; Adongo & Stork, 2005; Crabb, 2006; Ahlin & Lin, 2006; Acharya & Acharya, 2006; Schicks, 2007; Crombrugghe, Tenikue & Sureda, 2008; Thapa, 2009).

Schreiner (1999) provided a framework for analysing the performance and sustainability of subsidized development finance institutions. He measured sustainability by considering five groups viz., customers, society, donors, managers, and investors. Finally, the study revealed that no single indicator completely answers the question of sustainability of the institutions and also concluded that only human work and smarts are needed to analyse indicators to find ways to improve performance.

Financial sustainability is a necessary condition for a microfinance institution to scale up to a level that allows it to provide microfinance to a large client base, independent of external subsidies over the long-term. Adongo and Stork (2005) focused on one of the key the principle of microfinance by attempting to identify factors that influence the financial sustainability of 143 microfinance institutions in Namibia. The report found that the microfinance industry has shown significant signs of activity over the past few years and all the selected microfinance institutions in Namibia are not yet financially sustainable. The study applied Ordinary Least Squares to an Analysis of Covariance model consisting of cross-sectional data that captured various features of selected microfinance institutions in Namibia to identify the factors that influenced their financial sustainability.

Crabb (2006) measured the sustainability of the microlending institutions using a large cross-section of institutions and countries. The results showed that microfinance institutions operate primarily in countries with a relatively low degree of overall economic freedom and that various economic policy factors viz., trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and informal market activity are important for sustainability.

Ahlin and Lin (2006) measured the performance of microfinance institutions in macroeconomic context. They merged 5-9 years of data on each of 112 MFI's from 48 countries with country-level macroeconomic data and measured sustainability in terms of operational self-sufficiency and the sufficiency index. The results of the study suggested that the macroeconomy is an important determinant of MFI performance, though not more so than institution-specific factors.

Acharya and Acharya (2006) studied the sustainability of microfinance institutions from small farmers' perspective in rural Nepal. The main objective of this study was to understand and ascertain small farmers' local understandings of sustainability. They conducted in-depth individual interviews and focus group discussions in three farmers' cooperative organizations (the most successful, the least successful and the median) from the same geographical area and demonstrated how local understandings and views of rural small farmers can contribute towards sustainable microfinance and poverty alleviation in rural Nepal. The study found that performance of microfinance institutions in terms of institutional sustainability in Nepal seems not encouraging despite the fact that international and national development programs have been giving high priority on sustainable microfinance for poor for many years. The findings of the study revealed that small farmers generally do not think in terms of 'institutional' sustainability when they obtain loans from cooperatives; rather they define the term 'sustainability' in terms of personal benefits.

Schicks (2007) evaluated the developmental impact of charitable MFIs that rely on subsidies in comparison with sustainable MFIs that operate independently from grant funding. The results of the study confirmed that both the theoretical arguments for sustainable MFIs promoted by the institutionist approach to microfinance and the arguments for charitable MFIs advocated by the welfarist approach. The study concluded that both kinds of MFIs are justified and should continue to coexist and also suggested institutional solutions to facilitate the coexistence of both types of MFIs.

Crombrugghe, Tenikue and Sureda (2008) studied the performance of 42 microfinance institutions in India. They used regression analysis to study the determinants of self-sustainability of a sample of microfinance institutions in India. They investigated particularly three aspects of sustainability: cost coverage by revenue, repayment of loans and cost-control. The results suggested that the challenge of covering costs on small and partly unsecured loans can indeed be met, without necessarily increasing the size of the loans or raising the monitoring cost. The study suggested other ways to improve the financial results, like a better targeting of the interest rate policy or increasing the number of borrowers per field officer especially in collective delivery models.

In microfinance, sustainability can relate to organizational, managerial and financial aspects but the issue of financial sustainability of MFIs has attracted more attention in mainstream analysis. Thapa (2009) reviewed the experiences of microfinance institutions in the areas of sustainability and governance considering Southeast Asian countries. The study found that the South East Asian MFIs performing well in terms of financial sustainability as they earn positive returns on assets and equity, covering much higher cost levels by earning more from their loan portfolios; but South Asian MFIs have negative returns on assets and equity, despite having one of the lowest expense structures in the world. The study focused the apparent tension between achieving financial sustainability and contributing to poverty reduction of the microfinance institutions as, if MFIs have to serve the poor in remote rural areas, it may be difficult for them to achieve financial self-sufficiency. The study concluded that the sustainability of an MFI requires not only financial viability but also a clear strategic vision and an organization that is transparent, efficient, and accepted by all the stakeholders.

Considering the nature of MFIs, some developmental organization and many independent researchers evaluated the social performance (Zeller, Lapenu & Greeley, 2003; Simanowitz, & Pawlak, 2005; Sinha, 2006; Crompton, Woller, & Deshpande, 2006; Hashemi, 2007; Psico & Dias, 2008).

Zeller, Lapenu, and Greeley (2003) suggested a proposal to measure the social performance of microfinance institutions. They developed a conceptual framework for defining social performance of MFIs and suggested a set of operational indicators designed to measure the different dimensions and elements of social performance of MFIs. The different steps followed by them lead to a first definition of a reporting format which can offer a system of social performance assessment applied by the MFI as: (i) part of an audit for donors and ethical investors measuring the achievement of the MFI in different social dimensions; (ii) part of a learning process for the MFIs.

Sinha (2006) also proposed a common framework for social rating and social performance reporting in microfinance. The main objective of this study was to develop a systematic format for social rating and social performance reporting in microfinance which covers key elements of social performance (SP), with clearly defined terms and indicators and reflects certain accepted development values as well as the specific social mission of an MFI. The framework was divided into context, process, and results, with some key dimensions. Sinha reviewed a number of on-going initiatives working on social performance to develop a common framework for social rating and an indicative list of dimensions and indicators for social performance reporting in microfinance. The framework follows the Imp-Act pathway that emphasizes social performance, not only as an end result (the 'impact'), but also as the steps to get there, including the social and development values widely associated with microfinance.

Crompton, Woller and Deshpande (2006) studied on client-responsive microfinance and reviewed the existing social performance management system. They also identified obstacles and opportunities for promoting small-balance savings mobilization by providing recommendations for program/policy design to improve savings services for the poor.

Hashemi (2007) highlighted the emerging emphasis on social performance in microfinance and reviews some of the assessment tools recently developed. Hashemi proposed core social performance indicators under three dimensions viz., (i) achieving social objectives, (ii) being socially responsible, and (iii) managing social performance.. The study concluded that greater focus on social performance assessment will in turn result in better actual social performance in reaching larger numbers of far poorer people, in improving services to help clients reduce their vulnerability and improve their economic conditions, and in positively contributing to the communities in which institutions work.

Psico and Dias (2008) evaluated social Performance of seven microfinance institutions in Mozambique. They used the Social Performance Indicators (SPI) model developed by CERISE which has four social dimensions: outreach of the poor and excluded; adaptation of the services and products to the target clients; improvement of social and political capital of the clients; and social responsibility of the MFI. The results revealed that MFIs in Mozambique are not concerned about Social Performance as a goal. Only two institutions came close to the international standard MFIs average. The study concluded that the MFIs in Mozambique should redefine their strategies in order to attend the huge market of the people which are still excluded from the financial services.

Again it was felt that for MFIs to become sustainable, they need to be efficient. Some researchers also assessed the efficiency of MFIs in terms of cost efficiency and operational efficiency to evaluate the overall performance of the MFIs. (Gregoire & Tuya, 2006; Martínez-González, 2008; Zacharias, 2008; Caudill, Gropper, & Hartarska, 2009; Haq, Skully, & Pathan, 2010).

Gregoire and Tuya (2006) studied cost efficiency of microfinance institutions in Peru using a stochastic frontier approach. The main objective of this study was to analyse the efficiency of microfinance institutions (MFIs) in Peru between the period 1999 and 2003. They developed a theoretical framework for the analysis of Peru's MFIs which addresses cost efficiency and efficiency measurement methods, and employs a stochastic frontier model to enable the observed cost of MFIs to deviate from the efficient frontier due to either random events and/or possible inefficiencies. The study assessed the efficiency of microfinance banks, municipal savings and credit unions, rural savings and credit unions, and small and middle size enterprise development entities, taking into account consideration size of the MFI, ownership structure, experience, business guidelines, financial management quantity, portfolio risk, market concentration and economic activity. The results of the study demonstrate that companies are tending to manage their funds better and that the industry is becoming more firmly consolidated; and the most important variables affecting efficiency are product asset size and market concentration. The study infers that the main determining factors affecting the cost efficiency of MFIs are associated with economies of scale that can be used effectively by the company, and the disciplinary framework on the market. The study shows that cost efficiency is related negatively to business experience and the proportion of farm loans in the portfolio; related positively to the average loan, the proportion of the variable assets, the financial sustainability index, the percentage of deposits financing the activities of the company, and financial leverage.

Martínez-González (2008) studied the technical efficiency of microfinance institutions in Mexico. The main purpose of this study was to examine the relative technical efficiency of a sample of microfinance institutions in Mexico, through the use of data envelopment analysis (DEA) to compute efficiency scores, and to identify determinants of the differences in efficiency, through the estimation of a Tobit regression. Results for the intermediation and production approaches suggested that most MFIs have been more efficient in pursuing sustainability (proxied by the performing loan portfolio size) rather than breadth of outreach (number of clients) or have not met either goal successfully, but this trend reverted in 2007. The study found that the significant determinants of differences in efficiency were the average size of loan, proportion of assets used as performing portfolio, scale of operations, ratio of payroll to expenses, age, structure of the board, and for-profit status of the MFI. The results of this study portrayed an incipient market, where public funding does not necessarily lead to efficiency.

Zacharias (2008) examined economies of scale in microfinance institutions in two dimensions - by comparing similar firms across a broad sample as well as by looking at firms as they grow. In both cases, the researcher noticed strong evidence that operational efficiencies and size are positively correlated. The study found that a larger MFI appears on average to be a more efficient one. The study also concluded that efficiency and self-sustainability in microfinance do not imply "success" since societal improvement is often paramount to the venture and striking this balance between social and financial gains has become the new challenge in the industry, one that has only begun to be evaluated.

Caudill, Gropper and Hartarska (2009) examined the cost efficiency of microfinance institutions with time. The study used data from the MFIs belonging to Eastern Europe and Central Asia that were found to generally operate with lower costs the longer they are in operation. The study concluded that given the differences in operating environments, subsidies, and organizational form, this finding of increasing cost effectiveness may not aptly characterize all MFIs. The study estimated a mixture model which revealed that roughly half of the MFIs are able to operate with reduced costs over time, while half do not. The study also concluded that larger MFIs offering deposits and those receiving lower subsidies operate more cost effectively over time.

Haq, Skully and Pathan (2010) examined the cost efficiency of 39 microfinance institutions across Africa, Asia and the Latin America using non-parametric data envelopment analysis. The findings showed that non-governmental microfinance institutions particularly under production approach, are the most efficient and this result is consistent with their fulfillment of dual objectives: alleviating poverty and simultaneously achieving financial sustainability. The results also revealed that bank-microfinance institutions also outperformed in the measure of efficiency under intermediation approach. The study results reflected that banks were the financial intermediaries and had access to local capital market. The study concluded that in future the bank-microfinance institutions may outperform the non-governmental microfinance institutions in the long-run in terms of efficiency parameters.

Thus it has been found from the above review of the literatures that the following are the five categories of one dimensions approach that was considered to measure the overall performance of MFIs.

1. Financial Performance
2. Outreach
3. Sustainability
4. Efficiency
5. Social Performance

From the literature, it has been found that, 24% used financial performance to assess the MFIs, outreach and sustainability were considered in 18% and 16% respectively. Then some researchers opined that it is only efficiency that matters in the long run for an MFI to become self-sufficient as well as financially sustainable. Out of the total studies, 12% of the studies used 'efficiency' as the one of the important criteria to evaluate MFIs' performance. Only 10% of the studies measured social performance of the MFIs.

Table 2.2: Measurement Dimensions

Measurement Dimensions	Frequency (Out of 71 Studies)	Weight (%)
Financial Performance	37	24
Outreach	28	18
Sustainability	25	16
Efficiency	18	12
Others	16	10
Social Performance	16	10
Institutional Characteristics	7	5
Productivity	4	3
Governance	3	2

Thus it is seen that 90% of the studies used financial performance, social performance, outreach, sustainability, efficiency, productivity, institutional characteristics, and governance as the criteria to measure the overall performance of MFIs. The remaining 10% of the studies used other criteria to assess the performance of MFIs. Waweru and Spraakman (2010) used competitive position, innovation, resource flexibility, service quality; Koveos and Randhawa (2004) used customer perspectives. Some researchers reported that MFIs' economic performance is also important for its assessment (Kneiding & Mas, 2009; Gehrke & Martínez, 2007; Epstein & Crane, 2005). On the other hand, Nghiem (2007) considered for the first time, environmental variables to assess the MFIs' performance. Again subsidy component was used by Balkenhol (2007) to measure the performance of MFIs.

Yunus (2009) proposed a new type of business model called "social businesses" that would operate in the same market, along with existing profit-maximizing enterprises for the collective benefit of others. According to him, social business has a greater ability than charity to innovate, expand, and reach people through the power of the free market. His social business model rests on the idea of both self-sustaining and expanding and at the same time this must ensure that the products or services can reach more and more to the poor, on an ongoing basis. Any surplus generated by these companies is reinvested to expand operations, rather than enrich investors. Yunus also distinguished the concept of social business from the well-known idea of "socially-responsible business."

The last decade has seen a debate between the financial performance and social performance of MFIs. The main challenge is how to combine both the financial and social aspects of MFIs' performance. Table 2.2 above highlights the relative importance in terms of frequency of use of the various performance dimensions. Considering outreach as a part of social performance, it has been seen that (18+10) 28% of the studies used the social aspect to assess MFIs' performance. Thus we find that (28+24) 52% of the studies measured financial performance and social performance including outreach (Table 2.2). Thus it may be concluded that only financial and social performances are not the only criteria, other aspects of performance e.g., outreach, sustainability, efficiency, productivity, institutional characteristics, and governance are also very important while assessing the performance of MFIs.

Thus, measuring the performance of MFIs based on single parameter was not acceptable to the stakeholders of the microfinance industry, as this did not appear to be a rational approach. That is why, later on, researches and many developmental organizations tried to assess the MFIs based on multiple dimensions.

2.7. Multiple-Dimension Approach to the Assessment of MFIs

Performance measures play an important role in translating the organization's strategy into desired behaviors and results (Anthony & Govindarajan, 2007). For MFIs, performance measures communicate the firm's objectives, goals, and achievements to the employees, monitor their progress and provide feedback on their efforts and commitments to senior management, donors and to the society at large. Traditional performance measurement systems largely evolved within the large industrial firms of the 1920s focusing on the achievement of a limited number of key financial measures (Johnson & Kaplan, 1987). However with the recent changes in the operating environment, both academicians and practitioners have argued that financial measures are no longer adequate (Said et al., 2003; Ittner & Larcker, 1998).

2.7.1. Outreach and Sustainability

Outreach remains small and limited although the poor borrowers and savers predominate among MFI clientele, indicating an exclusive focus on the poor. To continue providing financial service to the poor on a sustaining basis, the MFIs themselves must be viable and sustainable. Thus, outreach and sustainability were considered by many researchers as the two most important parameters to assess the performance of MFIs suggessted by many researchers. Llanto, Garcia and Callanta (1997) attempted to explain the microfinance policy environment in the country and also evaluated the institutional and financial capacity and performance of MFIs through a survey of 7 MFIs in Philippine. In this study, the performance of the MFIs was measured in terms of outreach and sustainability. Conning (1999) made a comparative study of 72 MFIs of the different parts of the world. Conning measured outreach in terms of average loan balance (as a % of GNP per capita) and sustainability in terms of Operational Self Sufficiency (OSS) and Financial Self

Sufficiency (FSS). Congo (2002) measured outreach and sustainability of 6 Burkina Faso MFIs by applying ratio analysis. Lapenu and Zeller (2002) examined 100 African, Asian and Latin American MFIs to measure distribution, growth, and performance. Finally, they established relationships between financial sustainability and depth and breadth of poverty outreach, differentiated by institutional type and socioeconomic context.

To measure performances of MFIs, Luzzi and Weber (2006) applied factor analysis to a sample of 45 MFIs of Geneva during 1999-2003 periods. They considered five outreach indicators and one financial indicator. It was found that trade-off seems prominent for most MFIs although it was not confirmed throughout the whole period of time. Kereta (2007) applied econometric analysis to look at the performance of 26 Ethiopian MFIs, from outreach and financial sustainability angles. Kereta found no evidence of trade-off between outreach and financial sustainability. In his study, Kereta measured outreach by women credit access and sustainability by financial ratios like ROA, ROE etc. In an attempt to explain joint liability group lending and its implications for reducing information asymmetries, Hermes and Lensink (2007) measured the financial sustainability and outreach of microfinance programmes. They measured outreach by only depth of outreach while financial sustainability was measured by Subsidy Dependence Index as proposed by Hulme and Mosley (1996).

Applying Random Effect Model, Hartarska and Nadolnyak (2007) tried to find out the affect of regulation on the sustainability and outreach of 114 MFIs belonging to 62 countries. MFIs' financial sustainability was measured by OSS which tells how well the MFI can cover its costs through operating revenue. Outreach was measured by number of active borrowers. While examining the impact of capital structure on the performance of 52 Ghana microfinance institutions, Anthony Kyereboah-Coleman (2007) measured outreach by the rate of change in clientele base on yearly basis and sustainability by ROA, ROE, etc.

Makame (2008) undertook an empirical assessment of microfinance commercialization factors to probe the cognitive dissonance surrounding microfinance outreach and sustainability of 33 MFIs of four East African countries. Makame observed that the commercialization factors of the MFIs did not significantly explain the depth or breadth of outreach. Hartarska (2005) tried to find the impact of external governance mechanisms, board diversity and independence, and management compensation on outreach and sustainability of microfinance institutions. Hartarska measured outreach in terms of women borrowers and rural clients whereas financial sustainability was measured by ROA. Nghiem (2007) studied 38 Vietnam MFIs to measure efficiency and effectiveness by applying Data Envelopment Analysis (DEA) analysis. The results of this study revealed that the average technical efficiency score was 80% for both social and financial aspects. Only a few schemes were fully efficient in both aspects. In this study, outreach and financial sustainability was measured to assess the performance of MFIs.

Hartarska (2009) studied the effects of external governance mechanisms on 108 MFIs' performance belonging to 30 countries. Nghiem measured outreach in terms of number of active borrowers and financial sustainability in terms of return on asset, portfolio at risk etc. Sebstad (1998) analysed two African, four Asian and one Latin American MFIs and measured outreach in terms of number of active borrowers and sustainability in terms of grants and donations, and members' capital. Sebstad suggested a set of guidelines for conducting middle-range impact assessments.

2.7.2. Financial Performance and Outreach

Olszyna-Marzys (2006) analyzed the MFIs of Central and Eastern Europe and Central Asia (ECA) region using econometric analysis. The results showed that MFIs in ECA had the potential to achieve significant increase in depth of outreach in these coming years without jeopardizing their profitability. Olszyna-Marzys assessed the MFIs along two performance dimensions viz., outreach and profitability. According to this study, both financial self-sufficiency and depth of outreach can be attained in the medium run. Thus, at given point in time, when the MFI had achieved sufficient financial sustainability, an increase in the depth of outreach should not negatively impact the MFI's profitability level. Finally no clear trade-off between financial self-sufficiency and depth of outreach was found. Cull, Demirguc-Kunt and Morduch (2007) explored patterns of profitability and outreach of 124 institutions in 49 countries. The evidence showed the possibility of earning profits while serving the poor, but a trade-off emerges between profitability and serving the poorest. Mersland

and Strøm (2008) measured outreach by average loan amount and sustainability by ten financial ratios. Vanroose and D'Espallier (2009) analyzed the relationship between performance of MFIs and the development of the formal financial sector of the country in which the MFI is active. They also found that MFIs reach more clients and are more profitable where access to the formal financial system is low.

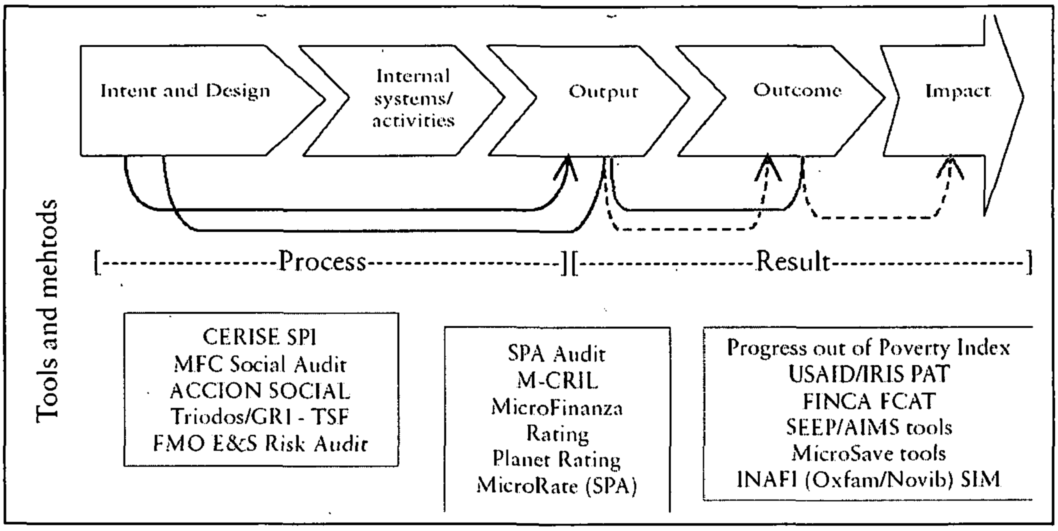
Cull, Demirguc-Kunt and Morduch (2009) examined the implications for the institutions' profitability and their outreach to small-scale borrowers and women. In this study, outreach was measured by average loan size, percentage of women borrowers. Profitability was measured by financial self-sufficiency, return on equity etc. Mersland and Strom (2007) examined MFI performance in terms of risk, financial aspects, and outreach. They concluded that external governance mechanisms in general seem to have limited influence on MFI performance including financial, outreach and risk performance. Kyereboah-Coleman and Osei (2008) tried to evaluate how governance indicators impact on performance measures of outreach and profitability in MFIs. They measured outreach by the annual rate of change of active clients of an institution. Profitability was measured by only return on equity. Ejigu (2009) tried to appraise the performance of Ethiopian MFIs in terms of various criteria by comparing with the Micro banking Bulletin benchmark.

2.7.3. Financial Performance and Social Performance

Bassem (2008) attempted to investigate the efficiency of 35 MFIs in the Mediterranean zone during the period of 2004-2005 in terms of financial and social performances. Financial performance was measured by the rate of default, ROA and social performance was measured by number of borrowers, percentage of women. Bassem found that the size of the MFIs has a negative effect on their efficiency. MFIs of medium size were found to be more efficient than the eminent ones in terms of financial as well as social performance. Berguiga (2008) tried to find the relationship between social performance and financial performance. He concluded that "depth of outreach" and "scale of outreach" express social performance while the ratios of profitability, efficiency, productivity, and portfolio quality describe financial performance.

CERISE conducted a survey of 42 Latin American MFIs in 2008 to find out links between social performance and financial performance. Social performance was measured in terms of four dimensions viz., targeting, services adaptation, social capital, and social responsibility. Financial performance was measured by ROA, portfolio at risk (PAR), operating expense ratio, and clients per staff. Isern, Abrams and Brown (2008) measured social performance in terms of intent and design, internal systems and activities, output, outcome and impact. They classified the various tools and methods for assessing social performance that is used by some developmental organisations and social rating agencies; this is shown in the following diagram.

Figure 2.3: Tools for Assessing Social Performance



Source: Isern, Abrams and Brown (2008)

Financial performance was measured in terms of six dimensions viz., financial statement analysis, analytical adjustments, financial performance ratio analysis, risk management, liquidity risk management and interest rate analysis. This revised MFI appraisal guide offers new sections on analysis of savings, social performance, information systems, and risk management. In addition, the guide includes new indicators and financial statement formats agreed within the microfinance industry from 2003-2005.

Bédécarrats, Angora and Lapenu (2009) tried to find the relationship between social and financial performance in microfinance. They concluded that social performance and financial performance are compatible and targeting the poor clearly implies higher costs for MFIs. However, other aspects of social performance—namely geographical targeting when associated with participatory models, well-adapted loan technologies and social responsibility were positively correlated with good operational and financial performance. The correlation was even stronger for large MFIs, which benefit from economies of scale.

2.7.4. Outreach and Efficiency

Some researchers measured the performance of MFIs only in terms of outreach and efficiency (Chua, Gilberto & Llanto, 1996; Hermes, Lensink, & Meesters 2008). Chua and Llanto (1995) used only two parameters to measure outreach in terms of average loan size and total loans released to loans outstanding. Hermes, Lensink and Meesters (2008) also considered average loan balance per borrowers, and percentage of female borrowers to assess outreach performance of MFIs. Again, Chua and Llanto (1995) measured efficiency in terms of nineteen parameters. Whereas, Hermes, Lensink and Meesters (2008) measured efficiency in terms of only three parameters viz., average savings balance per saver, age of the MFI and number of active borrowers. Moreover, some authors concentrated on financial efficiency and productivity other than outreach (Lafourcade, Isern, Mwangi & Brown, 2005; Ejigu, 2009). Ejigu (2009) measured depth and breadth of outreach by average loan size, average loan size per Gross National Income (GNI) per capita for cross country comparisons, percentage of women borrowers, number of borrowers and Gross Loan Portfolio (GLP). Ejigu also measured sustainability in terms of ROA, ROE and OSS. Efficiency was measured by operating expense to GLP and cost per borrower. Productivity was measured by borrowers per staff. Financial performance was measured by PAR, debt equity ratio, financial revenue ratio, loan loss ratios and operating expense ratio.

2.7.5. Financial Performance and Efficiency

Past literature reveals that some researchers assessed the performance of MFIs in terms of financial performance and efficiency. Waweru and Spraakman (2010) measured efficiency and productivity in terms of operating expenses ratio, cost per borrower, average outstanding loan size, number of borrowers per credit officer, number of borrowers per staff, staff productivity, and loan officer productivity. They measured financial performance by cash flow, revenue growth, profit margin, ROA, ROE, operating expenses ratio, average GLP, GLP to total asset, PAR to GLP, loan loss provision expense ratio, loan-loss reserves ratio, and write-off ratio. Another researcher, Satta (2006) measured financial performance in terms of net loans to total assets, non financial investment to total assets, PAR, written off loans, ROA. Gutiérrez-Nieto, Serrano-Cinca and Molinero (2007) measured efficiency and productivity in terms of cost per client, credit officer productivity, incentive pay, staffs with less-than 12 months. They measured financial performance in terms of funding expense ratio, cost of funds ratio, debt-equity ratio and PAR. Koveos and Randhawa (2004) measured outreach by number of active borrowers, number of active savers, loan portfolio outstanding, savings portfolio, average loan size, and loan balance. Sustainability was measured by OSS, FSS, adjusted ROA, adjusted ROE, whereas efficiency and productivity was measured by operating expense ratio, caseload, PAR, loan-loss reserve ratio, write-off ratio, loan-loss provision ratio. Financial performance was measured by debt-equity ratio, capital to asset ratio, leverage, current ratio, and liquidity ratio. In addition to financial performance, they also suggested to measure the nature of financial policy in terms of interest rate, portfolio quality, group monitoring, default rate, yield on asset, and employee bonus.

2.7.6. Social Performance and Efficiency

Gutiérrez-Nieto and Serrano-Cinca (2006) measured efficiency and productivity by cost per borrower, operating expenses, financial efficiency ratio, and OSS. On the other hand, social performance was measured in terms of borrowers per employee, average loan balance per borrower, percentage of loans below US$300, percentage of women borrowers, average MFI Lending Rate. In another study, Gutierrez-Nieto, Serrano-Cinca and Molinero (2009) suggested measuring efficiency of MFIs in terms of operating cost to net operating income, operating cost to number of active borrowers, operating cost to GLP. Financial performance was measured by total assets, operating cost, number of employees, GLP, financial revenue, ROA, and ROE. Social performance was measured by number of active women borrowers and indicator of benefit to the poorest. According to them, the 'average loan balance per borrower' was not a proper indicator of outreach, because it was measured in monetary units, and the same amount of money may mean different things in different countries depending on the average per capita income. Morduch (2000) reported that loan size has been the predominant metric for comparison of outreach. But loan size is a rough and indirect measure. So, Gutierrez-Nieto, Serrano-Cinca and Molinero (2009) divided the 'average loan balance per borrower' by the per capita Gross National Income (pcGNI) to find indicator of benefit to the poor.

$$K = \frac{\text{Average loan balance per borrower}}{\text{pcGNI}}$$

The higher the value of *K*, the larger is the average loan in relative terms. Having calculated the value of *K* for every MFI, it is required to standardized its values to the 0,1 range by removing the minimum value of *K* and dividing by the range of *K*. The indicator of benefit to the poorest (p_i) is defined below:-

$$p_i = 1 - \frac{K_i - Min(K)}{Range(K)}$$

Here, '*i*' is an indicator associated with a particular MFI. *Min(K)* is the minimum value over all *i*, while the *Range(K)* is the maximum value of *K* over all *i* minus the minimum value of *K* over all '*i*'. In this way a value between 0 and 1 is obtained, where a value near 0 indicates that the institution lends to the poorest. However, it is preferred to have a value near one associated with achieving the objective of reaching the poor.

2.7.7. Efficiency and Sustainability

An efficient MFI is believed to be more likely to be sustainable and self-sufficient in the long-run. Assuming this, some researchers measured only efficiency and sustainability of the MFIs (Qayyum & Ahmad, 2006; Baumann, 2004). Qayyum & Ahmad (2006) measured efficiency and productivity in terms of operating expense ratio, cost per borrower, and borrowers per staff member. Whereas, Baumann (2004) measured sustainability by:-

Sustainability = Coverage of administrative cost + Loan loss + Cost of funds + Inflation + Capitalisation for growth from operating income.

Baumann (2004) also distinguished between financial efficiency and productivity. According to Baumann, financial efficiency was measured by operating expense per client, personnel expense ratio, and average personnel expense as a multiple of per capita GNI. Baumann measured productivity in terms of borrowers per staff member, borrowers per loan officer, loan officer ratio, salary burden.

Thus, it has been observed that past researchers assessed the performance of MFIs from various dimensions. It is also evident from the above analysis that there is no uniformity in measurement of performance for this special kind of institutions with the dual objective of profitability and outreach. There has been a paradigm shift as reported by the past literatures in the measurement of the social aspect from outreach to social performance measurement. Initially, it has been observed that like any other financial institution, performance of MFIs was measured only with the financial parameters. Then to measure the social aspects of these institutions, some researchers introduced the concept of outreach (Chua & Llanto, 1995). But mere outreach indicator does not represent the total aspects of social contribution of the MFIs. Then the concept of social performance measurement of MFIs was introduced. The Social Performance Indicators Initiative (SPI) was launched in June 2002 at a meeting in Amsterdam convened by Argidius Foundation and CGAP. Then a steering Committee was formed comprising experts from CGAP of USA, CERISE of France, and Argidius Foundation of Switzerland to develop a framework for social performance reporting. The final results of this meeting was the development of a conceptual framework for defining social performance in the MFI sector, and identify the dimensions and elements of social performance to be measured. This was the major initiative to include the social aspect in the measurement of MFIs along with the financial aspect. Reporting on social performance by micro-finance institutions (MFIs) is still largely anecdotal in the absence of a clear, industry-wide, accepted framework for social performance reporting. In this global environment, it is important for the MFIs to incorporate the various aspects of performance measurement from different dimensions like, financial performance, social performance, risks, institutional characteristics, governance, efficiency and productivity.

2.7.8. Multi-Dimensional Analysis.

In the earlier sections, the various dimensions of performance measurement of MFIs have been identified and classified into the nine dimensions, viz., financial performance, outreach, sustainability, efficiency, social performance, institutional characteristics, productivity, governance, and others. Table 2.3 shows the multi-dimensional aspects of performance measurement of MFIs. The figures in the table represent the frequencies of the studies conducted on MFIs' performance measurement. The first row represents the studies that considered financial performance to measure the overall performance of the MFIs along with other dimensions.

Table 2.3: Multi-Dimensional Performance Measurement of MFIs

	FP	O	S	E	SP	IC	P	G	Ot	Total
FP	6	9	0	5	7	2	2	2	5	38
O		0	14	4	0	2	0	2	4	26
S			7	3	0	0	1	0	2	13
E				5	2	1	3	1	2	14
SP					6	0	0	0	1	7
IC						0	0	1	4	5
P							0	0	0	0
G								0	1	1
Ot									0	0
Total	6	9	21	17	15	5	6	6	19	104

(FP-Financial Performance, O-Outreach, S-Sustainability, E-Efficiency, SP-Social Performance, IC-Institutional Characteristics, P-Productivity, G-Governance, Ot-Others)

Table 2.4 measures the relative scores (weights) of each of the combination. The frequency of each of the combined performance dimension is divided by the total frequency (104) from Table 2.3. For example, the relative score of financial performance represented by the first row and the first column is 0.058 or 5.8%. This relative score is calculated by dividing the combined frequency 6 by the total frequency 104. Similarly, the relative scores for each of the various combinations are calculated.

Analysing the data from Table 2.4, top six combinations of the dimensions of the performance measurement of MFIs have been identified as follows.

1. Sustainability and Outreach (13.46%)
2. Financial Performance and Outreach (8.65%)

3. Financial Performance and Social Performance (6.73%)
4. Sustainability (6.73%)
5. Financial Performance (5.77%)
6. Social Performance (5.77%)

Table 2.4: Relative Scores of Multi-Dimensional Performance Measurement of MFIs

	FP	O	S	E	SP	IC	P	G	Ot	Total
FP	***0.057***	***0.086***	0	0.048	***0.067***	0.019	0.019	0.019	0.048	0.365
O		0	***0.134***	0.038	0	0.019	0	0.019	0.038	0.250
S			***0.067***	0.028	0	0	0.009	0	0.019	0.125
E				0.048	0.019	0.009	0.028	0.009	0.019	0.135
SP					***0.057***	0	0	0	0.009	0.067
IC						0	0	0.009	0.038	0.048
P							0	0	0	0.000
G								0	0.009	0.010
Ot									0	0.000
Total	0.058	0.087	0.202	0.163	0.144	0.048	0.058	0.058	0.183	1.000

2.8. Research Gap

Microfinance institutions are special financial institutions. They have both a social nature and a for-profit nature. Their performance has been traditionally measured by means of financial ratios. To measure the social aspect of MFIs, outreach was measured. From 2002, we find a paradigm shift in the performance measurement in the form of social performance measurement of MFIs. For the first time, Hartarska (2005) viewed the MFIs performance from the governance perspective which is also very important. It is the management which ultimately strives to achieve the dual objective of profitability and outreach. If an MFI is not efficient in reducing the cost per unit of output, it will be difficult to sustain its business as competitors will take over their business in the long-run. Moreover, if an MFI is not productive in terms of increasing the volume of business (output) for a given resource or asset (input), it would be very difficult to sustain its business. Thus it has been seen from the literature review that performance measurement of MFIs is multidimensional.

From the above analysis, it has been seen that many researchers and institutions assessed the MFIs' performance either from a single dimension like financial aspect, social aspect, outreach or combination of some of these dimensions. In this study, it has been found that only 52% of past researchers preferred to measure MFIs' performance considering the financial and the social aspects. The other important aspects were efficiency, productivity, governance and institutional characteristics. So this literature review highlights the following research gap:-

1. It has been observed that many studies conducted on the assessment of the MFIs considering combination of different dimensions of performance of MFIs. The top three combinations of the dimensions of the performance measurement of MFIs are Sustainability and Outreach (13.46%), Financial Performance and Outreach (8.65%), and Financial Performance and Social Performance (6.73%).

2. No study has been conducted so far to measure the financial as well as social performance of the MFIs in the state of Assam.
3. No study is found to be conducted till date to understand the operational mechanism and dynamics of MFIs focusing on microfinance assessment, microfinance delivery and microfinance monitoring system that are practiced in Assam.

2.9. Chapter Summary

The study revealed that there is a lack of unanimity in using a performance measurement tool in the microfinance industry. The issues of MFI sustainability, outreach, financial and social performance, efficiency, productivity, institutional characteristics and governance have been discussed based on literature review. Independent and institutional researchers, development bodies, and microfinance rating agencies had played a significant role in developing the MFI performance measurement field. There is still very much a need for an overall assessment of the MFIs. In this chapter, a scientometric analysis of the MFI performance measurement was done in terms of longitudinal spread as well as geographical spread.

Chapter 3

Research Methodology

CHAPTER 3: RESEARCH METHODOLOGY

The review of literatures revealed the following research gaps:-

(i) The researcher has not come across any such study so far which measured the financial as well as social performance of the MFIs in the state of Assam.

(ii) The researcher has also not come across any such study till date which was conducted to understand the operational mechanism and dynamics of the MFIs of Assam in terms of microfinance assessment, microfinance delivery and microfinance monitoring system.

3.1. Objectives

As described in the statement of the problem in the previous chapter, the present study aims to achieve the following three specific objectives:-

(i) To measure objectively the performance of selected microfinance institutions using financial parameters;

(ii) To measure objectively the performance of selected microfinance institutions using social parameters;

(iii) To understand the dynamics of MFIs in terms of their microfinance assessment mechanism, delivery system and monitoring system.

3.2. Scope & Limitation of the Study

The rationale of this study was based on understanding the performance of the MFIs from financial aspects, social aspects and their operational dynamics. The study was confined to the state of Assam in India and an exploratory study among the practitioners of microfinance industry was conducted. Only those MFIs registered in the state of Assam and offering microfinance services were considered for the study. This study is limited to the measurement of social performance. Following the Structure-Conduct-Performance (SCP) paradigm of industrial organization, the impact of an organization on socio-economic and environmental dimensions follows from its structure, conduct and performance and is influenced and/or conditioned by the external environment of the organization.

Figure 3.1: Structure-Conduct-Performance (SCP) Paradigm

Structure → Conduct → Performance → Impact (on clients/non-clients, communities etc. in many dimensions)

Source: Zeller, Lapenu & Greeley, (2003)

Social performance precedes social impact[2]. The measurement of social performance involves investigating the structure of an organization (i.e. mission, ownership, management principles, relation to and care for its staff) and its conduct in the market and local and wider community (services, products, market behavior, other relations with clients and other stakeholders, including community and social/political organizations). Social performances are measured through the principles, the actions and the corrective measures implemented by the MFI (Zeller, Lapenu, & Greeley, 2003). The measurement of social impact is beyond the purview of this study.

After measuring the performances of the sample MFIs in terms of various ratios, a comparison of these ratios were made with their respective National benchmark ratios. Microfinance Information Exchange (MIX), a non-profit company founded by CGAP (the Consultative Group to Assist the Poor) published a Microfinance Benchmarking Report on Asia in March 2010. In that report, the benchmark ratios were available for the year 2008. The microfinance sector as a whole is an unorganized sector and data of the MFIs is not largely available. So in the absence of the benchmark ratios for the years 2009 and 2010, the sample averages of most of the ratios are compared with the respective benchmark ratios of 2008. Out of 30 ratios considered in this study, the India benchmark is available for 24 ratios. The sample averages of these 24 ratios is calculated and compared with the respective National benchmark ratios.

The academic field of research is limited to performance measurement and operational dynamics of select MFIs working in Assam. This study can be extended for a greater geographical territory and may also be useful for other NGOs/Co-operatives/Credit Unions in general.

[2]Social impact represents the change in welfare and quality of life (in all of its dimensions) among clients and non-clients (and the wider local, national and global community) due to the activities of an organization (*Zeller, Lapenu and Greelev. 2003)*

3.3. Different Social Performance Methodologies

There are different methodologies available to assess the social performance of MFIs and some of the methodological issues have been surveyed by Hulme (2000). In a study focusing on the social performance of MFIs, Guti'errez-Nieto, Serrano-Cinca and Molinero (2009) also highlighted on different methodologies used to assess outreach and the social bottom line of MFIs viz., IMP-ACT, AIMS, SROI, Accion PAF, CGAP (PAT) and SPI as shown in Table 3.1.

Table 3.1: MFIs Social Assessment Methodologies

Name	Description	Procedure
IMP-ACT	International action-research programme that aims at improving the quality of microfinance services and their impact on fighting poverty. (http://www.imp-act.org)	It relies on the collection of quantitative and qualitative information from MFI clients. Descriptive statistics, test of differences are used to find out the social performances.
AIMS	Assessing the Impact of Microenterprise Services (AIMS) tries to measure how microfinance interacts with their borrowers' lives. (http://www.msiworldwide.com/gral/nwproductsinfo/aims page.htm)	It places families at the centre of its analysis. Impact survey is to test multiple hypotheses corresponding to various types of impact at the individual, household, enterprise, and community levels
SROI	SROI (Social Return On Investment) attempts to measure, in the form of an investment ratio, the social and environmental value created by an organization, not necessarily a MFI. (http://sroi.london.edu)	The methodology is still under construction. For example, the income generated by enterprise tries to be measured through savings to donors.
ACCION PAF	Accion Poverty Assessment Framework (PAF) has been created by Accion, a not-for-profit North American organization that groups MFIs, many of which are in Latin America. It compares socio-economic characteristics of its clients against national and international poverty lines (eg: a $ a day). (http://www.accion.org)	The data it employs at the moment are the data available within the MFI. Income or expenditure is compared with poverty lines. It analyses correlations and multivariate regressions to assess the potential of some variables as proxies of poverty level.
PAT	The Poverty Assessment Tool of CGAP (PAT) measures poverty outreach by placing the clients of an MFI in the context of the non-clients. This is the same methodology used by United Nations Human Development Index (HDI). http://www.microfinancegateway.org/poverty/pat/pat.html)	The analysis is done on the basis of 300 poverty indicators that are reduced to 30 by means of principal components analysis. A poverty index is finally constructed from these indicators.
SPI	The Social Performance Indicators Initiative (SPI) goes beyond poverty outreach. Social performance would have four dimensions: outreach to the poor and excluded, adaptation of the services and products to the target clients, improving social and political capital of clients and communities, and social responsibility of MFIs. (http://www.spifinance.com)	Four dimensions are collected by a questionnaire. The answers receive a weighting system from a principal components analysis. The results are represented by means of a rhombus, whose four vertices give a measure of MFI social performance.

Source: Guti'errez-Nieto, Serrano-Cinca & Molinero, (2009) Thus it is seen that different methodologies have been evolved by various institutions and bodies to assess MFIs social aspects. The objective was to measure MFIs impact in its crusade against poverty and economic upliftment of the economically backward societies. IMP-ACT (IMProving the impact of MFI on poverty: ACTion Research Programme) is an international program that aims at improving the quality of microfinancial services and their impact on fighting poverty. IMP-ACT provides guidance on designing social performance management systems and may be a useful reference for analysts. AIMS (Assessing the Impact of Microenterprise Services) tries to measure how microfinance interacts with its borrowers' lives, placing families at the centre of the analysis. The goal of the AIMS tool is to understand how the usage and allocation of credit, earnings and savings change over time, examine the enterprise's development, analyse the role of clients in decision-making with regard to service use, identify the tangible effects of such decisions in relation to resource allocation and explore the links between the client's household and his or her enterprise. This tool asks the clients to recall each loan they have taken and to describe how it was used. Clients who have taken a number of loans (more than four) find recalling all the relevant information difficult.

The Poverty Assessment Tool of CGAP (PAT) is at an experimental stage and relatively costly to implement, given that six days are required for the work of the outside consultant. SROI (Social Return on Investment) measures an investment ratio which represents the social and environmental value created by an organization, not necessarily a MFI. PAF (Accion Poverty Assessment Framework) compares socio-economic characteristics of its clients against national and international poverty lines. PAT (Poverty Assessment Tool of CGAP) measures poverty outreach by placing MFI clients in the context of the non-clients (see Zeller et al. 2002). Under this method, comparison of client data and national data is required satisfactorily which is difficult to compare. The tool is effective only if detailed information is available on borrowers. Not all MFIs have this sort of information. The tool is therefore useful only to a limited number of MFIs.

The CERISE's Social Performance Indicators (SPI) tool focuses on the institutional process and internal systems by assessing intent, activities, and output. SPI tool measures social performance of MFIs considering four dimensions viz., (i) Outreach to the poor & excluded, (ii) Adaptation of the Services & Products to the Target Clients, (iii) Improvement of social and political capital of the clients and (iv) Social Responsibility of the institution under 15 parameters. The SPI Initiative was launched in June 2002 at a meeting in Amsterdam convened by Dr. Koenraad Verhagen (Argidius Foundation, Switzerland) and Dr. Syed Hashemi (CGAP). The initiative is supported by the Argidius Foundation and the SPI tool is developed by Zeller, Lapenu and Greeley in 2003. For this study, the SPI tool is selected out of the above discussed methodologies because of the following reasons (IFAD, 2006):-

(i) The SPI tool evaluates the intentions, actions and corrective measures implemented by an MFI in order to determine whether it has the means to attain its social objectives. The SPI tool can be used internally to examine the MFI's social mission and the means available to pursue the mission or, externally, as a basis for dialogue with the MFI on its social objectives.

(ii) The information is available within the MFI and obtained from management, the departments involved (e.g., training, human resources) and the MIS.

(iii) There are four dimensions of quantitative and qualitative data: (a) outreach to the poor and the excluded; (b) the adaptation of services and products so as to target clients; (c) improving the social and political capital of clients; and (d) the social responsibility of the MFI.

(iv) Information on the four dimensions is translated into values which vary between 0 and 3. Each dimension is scored on a point scale of 25 for a total of 100 points per questionnaire. Although the scoring is not equivalent to a benchmark, it allows the results to be displayed graphically.

(v) This allows MFIs to reflect internally on their social objectives.

(vi) The indicators are useful as teaching aids to generate discussion on the nature of social responsibility.

(vii) The indicators are relatively simple and offer a broad vision of the definition of social performance (not merely limited to targeting the poor).

(viii) The tool has been developed through a participatory process with MFIs and other microfinance actors, which gives it legitimacy and recognition within the sector.

[3]The Social Performance Indicators initiative (SPI) developed by Cerise and its partners, was the precursor of a method to measure social performance. Developed in 2003 in collaboration with a wide range of practitioners, the SPI is an open access tool that assesses the principles, actions and corrective measures implemented by an MFI to achieve its social objectives. The SPI tool works by assessing the "social process" (via a questionnaire) based on four key dimensions.

3.4. Research Design

The study was conducted using both primary and secondary data. To fulfill the objectives of the study, different methods were adopted like, (a) survey, (b) interview, and (c) exploratory study. A sample survey of the MFIs was conducted in fourteen districts of Assam during June – October, 2010. Table 3.5 highlights the district wise selection of the number of sample MFIs. In this study, a preliminary survey was planned and face-to-face interviews were conducted with the key MFI officials like, president, secretary or executive members in order to get a feel for the key issues before embarking on a questionnaire.

To fulfill the first objective of the study, quantitative data in the form of accounting figures from the Balance-Sheet, Profit & Loss Account, Income and Expenditure Statement, Receipt and Payment Statement, and Trial Balance were collected from the MFI office. To fulfill the second and third objective of the study, interviews were conducted with the key MFI officials and data had been collected using four questionnaires.

3.5. Preliminary Survey:

A pilot survey was conducted in Sonitpur district to understand the availability of data of the MFIs of Assam. This pilot survey also helped to design the questionnaire and incorporate the necessary changes that are required to achieve the objectives of the study. In Sonitpur district, three MFIs were surveyed viz., (i) Sonali SHG Unnayan Samiti, (ii) Mahila Shakti Kendra (MASK) and (iii) GRAMIN (Microfinance).

3.6. Variables under Consideration:

To measure the financial performance of selected microfinance institutions in Assam, thirty financial ratios were used under six performance dimensions viz., profitability, risk, financial management, sustainability, efficiency and productivity. The inputs for these ratios were collected from the Balance Sheet, Profit & Loss Account, Receipts & Payments Statements, Income & Expenditure Statements, Trial Balance and other general information of 34 MFIs for three financial years from 2007-2008 to 2009-2010.

Initially, these ratios were calculated for each of the 34 MFIs for the three financial years mentioned above. For each ratio, year wise an average for the sample was calculated. This resulted in three 'means' and using them a final sample average was calculated and used for further analysis. The definition, meaning and source of these 30 ratios found in the literature are summarized in Table 3.1.

Table 3.2: Financial Performance Variables

Variables	Definition	Explanation	Some References
PROFITABILITY			
1. Return on Assets (ROA)	Net Income / Average Assets	It is an overall measure of profitability that reflects both the profit margin and the efficiency of the institution.	Tucker, 2001; Abate et al., 2002; Koveos & Randhawa, 2004; Satta, 2006; Mersland & Strom, 2007; Cull, Demirgüç-Kunt, & Morduch, 2007; Kereta, 2007.
2. Return on Equity (ROE)	Net Income / Average Equity	It indicates the profitability of the institution & is frequently used as a proxy for commercial viability.	Gibbons & Meehan, 1999; Abate et al., 2002; Koveos & Randhawa, 2004; Kereta, 2007; Kereta, 2007.
3. Portfolio Yield (PY)	Cash Financial Revenue/ Average Gross Loan Portfolio	It measures how much the MFI actually received in cash interest payments from its clients during the period.	Abate et al., 2002; Mersland & Strom, 2007; Cull, Demirgüç-Kunt, & Morduch, 2007; Mersland & Storm, 2007.
4. Profit Margin (PM)	Net Operating Income / Operating Revenue	Measures what percentage of operating revenue remains after all financial, loan-loss provision, and operating expenses are paid.	CGAP, 2003; Gutiérrez-Nieto & Cinca, 2006; Gehrke, & Martínez, 2007; Waweru & Spraakman, 2010.
PORTFOLIO RISK			
5. Portfolio at Risk (PAR 30)	(Loans Due 30 Days + Value of Renegotiated Loans) / Gross Loan Portfolio	It shows the portion of the portfolio that is "contaminated" by arrears and therefore at risk of not being repaid.	Abate et al., 2002; CGAP, 2003; Lafourcade, Isern, Mwangi, & Brown, 2005; Berguiga, 2008 ; Hartarska, 2009.
6. Write-Off Ratio (WoR)	Value of Loans Written Off / Average Gross Loan Portfolio	Represents the percentage of the MFI's loans that has been removed from the balance of the gross loan portfolio because they are unlikely to be repaid.	CGAP, 2003; Koveos & Randhawa, 2004; Mersland & Strom, 2007; Isern, Abrams, & Brown, 2007; Waweru & Spraakman, 2010.
7. Risk Coverage Ratio (RCR)	Loan Loss Reserves / (Outstanding Balance on Arrears over 30 days + Refinanced Loans)	This measure shows what percent of the Portfolio at Risk is covered by actual loan loss reserves. It gives an indication of how prepared an institution is for a worst-case scenario.	Abate et al., 2002; CGAP, 2003; Alternative Credit Technologies & SEEP Network, 2005; Thapa, 2009.
8. Provision Expense Ratio (PER)	Loan Loss Provisioning Expenses / Average Gross Loan Portfolio	This measure gives an indication of the expense incurred by the institution to anticipate future loan losses. One should expect this expense to increase in step with overall portfolio growth.	Abate et al., 2002; Stauffenberg et al., 2003; Gutiérrez-Nieto, Serrano-Cinca, & Molinero, 2005; Qayyum & Ahmad, 2007; Thapa, 2009; Thapa, 2009; Ejigu, 2009; Waweru & Spraakman, 2010.

FINANCIAL MANAGEMENT			
9. Debt Equity Ratio (DER)	Total Liabilities / Total Equity	Measurement of an MFI's capital adequacy, indicates the safety cushion the institution has to absorb losses before creditors are at risk.	Abate et al., 2002; Llanto, Garcia & Callanta, 1997; Koveos & Randhawa, 2004; Mersland & Strom, 2007; CGAP, 2003; Ejigu, 2009.
10. Cost of Fund Ratio (CFR)	Interest and Fee Expenses on Funding Liabilities / Average Funding Liabilities	The ratio measures the average cost of the company's borrowed funds. MFIs that can mobilize savings tend to have relatively low cost of funds.	CGAP, 2003; Conning, 1999; Baumann, 2004; Alternative Credit Technologies & SEEP Network, 2005; Gutiérrez-Nieto, Serrano-Cinca & Molinero, 2007; Thapa, 2009.
11. Portfolio to Assets (PTA)	Gross Loan Portfolio / Total Assets	Measures the asset / liability management of the MFI	Alternative Credit Technologies & SEEP Network, 2005; Gehrke & Martínez, 2007; Martínez-González, 2008.
12. Funding Expense Ratio (FER)	Interest and Fee Expenses / Average Gross Portfolio	Measures the total interest expense incurred by the institution to fund its loan portfolio and also determines the minimum lending rate an MFI must charge in order to cover its costs.	Abate et al., 2002; CGAP, 2003; Gutiérrez-Nieto, Serrano-Cinca & Molinero, 2005; Isern, Abrams & Brown, 2007, African Microfinance Transparency, 2008
SUSTAINABILITY			
13.Operational Self Sufficiency (OSS)	Operating revenue / (Financial expense + Loan-loss provision expense + Operating expense)	Measures how well an MFI covers its costs through operating revenues.	Llanto, Garcia & Callanta, 1997; CGAP, 2003) Koveos & Randhawa, 2004; Barres et. al., 2005; Ahlin & Lin, 2006; Crabb, 2006; Ejigu, 2009.
14. Financial Self Sufficiency (FSS)	Adjusted operating revenue / (Financial expense + Loan-loss provision expense + Operating expense + Expense adjustments)	Measures how well an MFI can cover its costs, taking into account a number of adjustments to operating revenues and expenses.	Llanto & Callanta, 1997; Conning, 1999; CGAP, 2003; Koveos & Randhawa, 2004; Barres et. al., 2005; Kereta, 2007.
15. Subsidy Dependence Index (SDI)	Total Subsidy / Subsidy on concessional rate borrowing	Dependence to subsidies is measured by the subsidy dependence index (SDI).	Yaron, 1992, 1997; Morduch, 1997; Yaron et al., 1997; Schreiner, & Yaron, 2001; Congo, 2002; Hermes & Lensink, 2007; Ejigu, 2009; Richman & Fred, 2010
16. Repayment Rate (RR)	(Total amounts paid by Clients in Current Period – Prepayments by clients) / Total amounts due from Clients in Current Period	It is the rate at which a customer can repay the part of the loan in proportion to the total loan obtained. Higher the rate, greater the efficiency and vice-versa.	Schreiner, 1999; Morduch, 1997; Yaron et al., 1997; Schreiner, 1998; Khandker et al., 1995; Godquin, 2004; Gutiérrez-Nieto, Serrano-Cinca & Molinero, 2007; Cull, Demirgüç-Kunt & Morduch, 2007; Oke, Adeyemo & Agbonlahor, 2007; Crombrugghe, Tenikue & Sureda, 2008.
EFFICIENCY			
17. Operating Expenses Ratio (OER)	Operating Expenses / Average Gross Loan Portfolio	Highlights personnel and administrative expenses relative to the loan portfolio the most commonly used efficiency indicator.	CGAP, 2003; Abate et al., 2002; Koveos & Randhawa, 2004; Barres et. al., 2005; Lafourcade, Isern, Mwangi &

			Brown, 2005; Qayyum & Ahmad, 2007; Gehrke & Martínez, 2007; Makame, 2008; Ejigu, 2009; Kneiding & Mas, 2009; Nieto & Serrano-Cinca, 2006; Waweru & Spraakman, 2010.
18. Cost Per Borrower (CPB)	Operating Expenses / Average Number of Active Borrowers	This ratio provides a meaningful measure of efficiency by showing the average cost of maintaining an active borrower.	Abate et al., 2002; CGAP, 2003; Lafourcade, Isern, Mwangi & Brown, 2005; Gutiérrez-Nieto & Cinca, 2006; Gehrke & Martínez, 2007; Makame, 2008; Berguiga, 2008; Haq, Skully & Pathan, 2009; Ejigu, 2009; Waweru & Spraakman, 2010.
19. Average Salary to GNI per Capita (ASGC)	Average Personnel Expense / GNI per capita	It measures the average salary of MFIs in terms of GNI per capita and helps to understand the salary of MFIs in global context.	Gehrke & Martínez, 2007; Isern, Abrams, & Brown, 2007; Microfinance Information Exchange, 2009, 2010
20. Operating Expense to Total Assets (OET)	Operating Expense / Total Assets	It measures MFIs efficiency to manage its operating expenses in terms of total assets.	Gehrke & Martínez, 2007; Isern, Abrams, & Brown, 2007; Microfinance Information Exchange, 2009, 2010
21. Operating Expense to Loan Portfolio (OELP)	Operating Expense / Adjusted Average Gross Loan Portfolio	It measures MFIs efficiency to manage its operating expenses with respect to their Gross Loan Portfolio (GLP)	Gehrke & Martínez, 2007; Isern, Abrams, & Brown, 2007; Microfinance Information Exchange, 2009, 2010
22. Personnel Expense to Loan Portfolio (PELP)	Personnel Expenses / Adjusted Average Gross Loan Portfolio	It measures MFIs efficiency to manage it staff expenses with respect to its GLP	Baumann, 2004; Gehrke & Martínez, 2007; Isern, Abrams, & Brown, 2007; Nieto, Cinca, & Molinero, 2007; Microfinance Information Exchange (2009, 2010)
23. Client Turnover (CT)	(No. of Active Clients, beginning of period + No. of New Clients during period – No. of Active Clients, end of period) / Average No. of Active Clients	Measures the net number of clients continuing to access services during the period. The Client Turnover Ratio is frequently used by managers to determine the level of client satisfaction with the MFI's products and services.	Barres et al., 2005; CGAP (2008,2009); SEEP (2005); USAID (2005)
24. Borrowers per Staff Member) (BSM)	Number of active borrowers / Number of personnel	This ratio captures the productivity of the institution's staff – the higher the ratio the more productive the institution. Indirectly, the ratio says a fair amount about how well the MFI has adapted its processes and procedures to its business purpose of lending money.	Barres et. al., 2005; Olszyna-Marzys, 2006; Gehrke & Martínez, 2007; Qayyum & Ahmad, 2007; Waweru & Spraakman, 2010; Lafourcade, Isern, Mwangi, & Brown, 2005; Ejigu 2009; CGAP, 2009

25. Loans per Staff Member) (LSM)	Number of Active Borrowers / Number of Loan Officers	Captures the productivity of the institution's loan officers – the higher the ratio the more productive the institution.	Abate et al., 2002; Satta 2006; Microfinance Information Exchange, 2009, 2010
26. Average disbursed loan size (ADLS)	Value of loans disbursed / Total Number of Loans disbursed during period	Measures the average loan size that is disbursed to clients. This ratio is used to project disbursements.	CGAP, 2003; Gehrke & Martínez, 2007; Microfinance Information Exchange, 2009, 2010
27. Personnel Allocation Ratio (PALR)	Number of Loan Officers / Number of Personnel	Measures what percent of an MFI's employees is focused on the lending activity of MFIs.	Gehrke & Martínez, 2007; Martínez-González, 2008; Microfinance Information Exchange, 2009, 2010
28. Average Outstanding Loan Size (AOLS)	Gross Loan Portfolio / Number of Loans Outstanding	Measures the average outstanding loan balance per borrower. This ratio is a profitability driver and a measure of how much of each loan is available to clients.	Barres et al., 2005; CGAP, 2003, 2009
29. Loans per Staff Member (LPSM)	Number of Loans Outstanding / Number of Personnel	It measures the productivity of the overall MFI staffs in terms of numbers of loans disbursement.	Microfinance Information Exchange, 2009, 2010
30. Loans per Loan Officer (LPLO)	Number of Loans Outstanding / Number of Loan Officers	It measures the productivity of MFI's Loan Officers in terms of numbers of loans disbursement.	Microfinance Information Exchange, 2009, 2010

To measure the social performance of selected microfinance institutions, the report on social performance initiative as suggested by Manfred Zeller, Cécile Lapenu and Martin Greeley (2003) was used. Using the Social Performance Indicators (SPI)[3] tool, an internal evaluation of the social performance of the MFIs of Assam was conducted in light of four fundamental dimensions with some research queries to be addressed - Who are the clients and how are they targeted? Are products and services adapted to clients' needs? How are client capacities reinforced? How does the organization carry out its social responsibility?

Social performance was measured with respect to four dimensions viz., (i) outreach to the poor & excluded (D_1), (ii) adaptation of the services & products to the target clients (D_2), (iii) improvement of social and political capital of the clients (D_3) and (iv) social responsibility of the institution (D_4) under 15 parameters.

The **first dimension,** D_1 was measured by five parameters viz., (i) mission of the MFI, (ii) geographic & socio-economic focus on client group, (iii) tools for targeting, (iv) size of transaction, and (v) collateral. The **second dimension,** D_2 was measured by four parameters viz., (i) range of services, (ii) quality of service, (iii) non-financial services accessible to the clients, and (iv) participation. The **third dimension,** D_3 was measured by three parameters viz., (i) transparency, (ii) clients representatives, and (iii) empowerment. The **fourth dimension,** D_4 was measured by three parameters viz., (i) human resources policy, (ii) social responsibility towards the clients, and (iii) social responsibility towards the local community. The following table illustrates the variables measuring the 15 parameters under four dimensions.

Table 3.3: Variables for Measuring Social Performance of MFIs

Dimensions	Parameters/Indicators	Variables
Outreach to the poor & excluded	1. Mission of the MFI	V_1: Financial sustainability V_2: Outreach to the poor V_3: Outreach to the excluded (women, illiterate, unsecured workers) V_4: *Positive impact on income* V_5: Positive impact on Education & Social status V_6: Management's commitment to social mission
	2. Geographic & Socio-economic Focus on Client Group	V_7: Urban areas V_8: Rural areas V_9: Workers with insecure status (casual labours, landless tenants) V_{10}: Women V_{11}: Illiterate individuals
	3. Tools for Targeting	V_{12}: Client conditions (illiteracy, firm size, land, assets, gender)
	4. Size of Transaction	V_{13}: *Last 12 months loan distribution (no of loans below % of GDP per Capita)*
		V_{14}: Minimum size of savings account in last 12 months
	5. Collateral	V_{15}: Loans only secured by social collateral (group solidarity, on trusted third party recommendation, physical guarantees)
Adaptation of the Services & Products to the Target Clients	6. Range of Services	V_{16}: No of loan products V_{17}: Emergency Loans V_{18}: Education Loans V_{19}: Loans for 0 to 6 months V_{20}: Loans for 6 to 12 months V_{21}: Loans above 12 months V_{22}: Number of types of savings product V_{23}: Number of insurance products V_{24}: Flexibility of repayment
	7. Quality of Service	V_{25}: Maximum distance traveled by clients to receive loan or make deposit V_{26}: Frequency of meeting of credit committee (prompt delivery of loans) V_{27}: Any market surveys conducted V_{28}: Percentage of client drop-outs or inactive clients V_{29}: No. of surveys on client drop-outs
	8. Non-financial Services accessible to the clients	V_{30}: Related to the financial & Economic management of the loan V_{31}: Related to the social needs (literacy training, health services, etc.,)
	9. Participation	V_{32}: Meetings/surveys to involve its clients in the design of the
Improvement of social and political capital of the clients	10. Transparency	V_{33}: Differentiate principal, interests and fees to be paid V_{34}: Written statements on loan transactions V_{35}: Written statements on savings transactions V_{36}: Access to the MFI's annual accounts

	11. Clients representatives	V_{37}: Inclusion of clients in representative body for consultation V_{38}: Inclusion of clients representatives for decision-making V_{39}: Inclusion of clients representatives in any representative body for control V_{40}: Impact of clients' body on decision making and MFI management V_{41}: Frequency of represented bodies' meeting with staff managers V_{42}: Rotation of the elected members V_{43}: Training of representatives / elected members V_{44}: Percentage of women among client representatives
	12. Empowerment	V_{45}: Strengthen the social cohesion of the local community V_{46}: increase influence of clients in local government V_{47}: leadership training for the clients (team building, representation, etc.) V_{48}: Power to influence the public policy of the local government
Social Responsibility of the institution	13. Human resources policy	V_{49}: Starting annual income of employees V_{50}: Annual budget for training of employees V_{51}: Participation in decision-making V_{52}: Health coverage V_{53}: Employee turnover ratio
	14. Social responsibility towards the clients	V_{54}: Conducted socio-economic studies V_{55}: Change its products and services for clients' welfare V_{56}: Insurance that frees the family from the debt in case of death of the borrower. V_{57}: Measures in case of natural disaster
	15. Social responsibility towards the local community	V_{58}: Actions are compatible with the local culture and values V_{59}: Local loan officers V_{60}: Assisted the local community through financial support for projects V_{61}: Change its products due to negative impact on social cohesion

Source: Compiled from SPI-Report No. 4, Zeller, Lapenu & Greeley, (2003)

Finally, to study the social performance of the MFIs of Assam, a questionnaire was used considering the 61 variables (Table 3.2) based on a framework suggested by the SPI-Report No. 4 (See Annexure III). The questionnaire was prepared in English and data were collected by the researcher asking each and every question to the key officials (Secretary, President, CEO, Manager, Executive Member) of MFIs. The responses were sought on nominal and ordinal scales. Demographic profile (i.e. year of starting microfinance activity, number of active borrowers, number of branches, type of institution, geographical area of activity, total number of staffs) was also sought at the end of the questionnaire. Each variable in the questionnaire is given 0, 1, 2 or 3 points. The total points derived by adding all these 61 variables leads to an index with a maximum of 100 points. Each MFI was ranked out of 100 points. The weights of these variables were derived using a statistical technique – principle component analysis (PCA) as used by Henry et al., (2003). The advantage of this method is that weights are chosen objectively. The final results of the primary data so collected considering the above mentioned 61 variables were classified into 4 dimensions and 15 sub-dimensions. Initially, the social performance of the MFIs of Assam was analyzed at the macro level across four performance dimensions. Later on, the performance was analyzed into 15 sub-dimensions to understand the factors that affect the social performance of the sample MFIs.

To understand the dynamics of MFIs focusing on microfinance assessment, microfinance delivery and microfinance monitoring mechanism, a questionnaire was designed for this purpose (See Annexure IV, V & VI). This questionnaire comprised 31 (both open-ended and close-ended) questions on nominal and ordinal scales. The entire questionnaire was divided into three sections; first section was framed to assess the creditworthiness of the borrowers; second section was framed to understand the microfinance delivery system; third section was framed to measure the microfinance monitoring system of the MFIs.

3.7. Sampling Design:

(a) Target Population: The target population is the collection of all MFIs working and registered in Assam. The target population is defined in terms of elements, sampling units, extent, and time.

(i) Elements: Officials of the MFIs responsible for most of their operational functioning.

(ii) Sampling Units: Individual Microfinance Institutions (MFIs). MFI means an organisation, other than a group established for the purpose of carrying on the business of extending micro finance services and includes the following:

(a) a society registered under the Societies Registration Act 1860 or any other state enactment governing such societies;

(b) a trust created under the Indian Trusts Act 1882 or public trust registered under any state enactment governing trust for public, religious or charitable purposes;

(c) a cooperative society or mutual benefit society or mutually aided society registered under any state enactment relating to such societies or any multi state cooperative society registered under the Multi State Cooperative Societies Act 2002, but not including:

(1) a cooperative bank as defined in clause (cci) of section 5 of the Banking Regulation Act 1949; or

(2) a cooperative society engaged in agricultural operations or industrial activity or purchase or sale of any goods and services.

Microfinance services means providing financial assistance to an eligible client being directly or through a group mechanism for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual), or housing purposes; or for any of the purposes as may be prescribed as per the Microfinance Sector (Development and Regulation) Bill 2007.

(iii) Extent: The study was conducted in 14 districts in the state of Assam. All the necessary information for the study had been collected from the head office of the MFIs.

(iv) Time: A survey was conducted with the help of the questionnaires during June 2010 to October, 2010 among the key officials (Secretary, President, Executive Member, CEO, Manager) of the MFIs of Assam.

(b) Sampling Frame: Microfinance activity mostly belongs to the unorganized sector where there exists the problem of information asymmetry. This is more pertinent for microfinance which is embedded within the context of North Eastern Region. Centre for Microfinance & Livelihood (CML) published a sector overview report comprising database of NGOs, NGO-MFIs and MFIs of Assam in February 2010. The database of the Centre for Microfinance Livelihood, 2010 was considered to select the samples for this study. Only those MFIs who are registered in Assam were selected for the study.

(c) Sampling Techniques: Microfinance is the supply of loans and savings services to the poor (Schreiner, 1999). Given the magnitude of the need for financial services among the informal sector, the ability to reach significant numbers of clientele is very important for MFIs. Scarce resources dictate the need for earmarking those to reach the intended target groups, who need the resources the most, and to avoid the leakage to unintended clients (Chua & Llanto, 1996). The term - outreach is typically used to refer to the effort by MFIs to extend loans and financial services especially toward the poorest of the poor (Conning, 1999). The samples were selected based on the following two criteria:-

(i) *Years of Microfinance Operations*: MFIs that have been offering microfinance services to their clients for the last three financial years viz., 2007-2008, 2008-2009 and 2009-2010;

(ii) *MFIs' Outreach*: Outreach represents the number of clients reached by the MFIs, NGOs & NGO-MFIs in Assam. For the study, top 40 MFIs were selected based on the number of active borrowers.

(d) Sample Size: The research was based on primary as well as secondary data. First, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) was considered. Table 3.3 provides the number of NGOs, NGO-MFIs and MFIs operating in Assam as per the sector overview report of CML published in February, 2010. From this CML data base, only those MFIs that are continuing microfinance operations in Assam for the last three financial years, from FY 2007-08 to FY 2009-10 were selected. After this screening, the number of available MFIs came down from 212 to 79 as shown in Table 3.4. From this target population of 79 MFIs, top 40 MFIs were selected based on the MFIs' outreach i.e., number of clients served by the MFIs. Finally with six rejections, 34 MFIs (43% of the target population) spread across 14 districts of Assam were considered for the study.

Table 3.4: No of MFIs in Assam

Institutions	Numbers
NGO-MFIs	84
MFIs	7
NGOs	121
TOTAL	212

[4]Source: CML, Sector Overview, 2010

Table 3.5: No. of MFIs That Have Been Operating During the Period 2008-2010

Institutions	Numbers
NGO-MFIs	65
MFIs	6
NGOs	8
TOTAL	79

[4]Source: CML, Sector Overview, 2010

The following table gives the district-wise representation of the MFIs covered in this study.

Table 3.6: District-wise Distribution of Sample MFIs

Sl. No.	Districts Covered	No. of MFIs
1	Baksa	2
2	Barpeta	2
3	Cachar	1
4	Darrang	3
5	Goalpara	1
6	Golaghat	1
7	Hailakandi	1
8	Kamrup	8
9	Karimganj	1
10	Lakhimpur	1
11	Morigaon	2
12	Nalbari	5
13	Sivasagar	1
14	Sonitpur	5
	Total	34

This sample size is well justified when compared with the sample size used in the similar studies which is shown in Annexure IX.

*(e) **Sample Profile***: The sample profile is briefly highlighted with the help of the following tables (Also see Annexure XXII):-

Table 3.7: No. of Sample MFIs

Type[4]	No. of MFIs	in %
MFI	4	11.76
NGO	7	20.59
NGO-MFI	23	67.65

Table 3.8: Source of Information

Source of Information	No. of MFIs	in %
Audit Report	17	50
Filled up the required data	11	32
Published Annual Report	6	18

Table 3.9: Outreach Details

Total Outreach	No. of Active Clients
Target Population	270917
Sample	246509
% of Sample Outreach	90.99

Table 3.10: Availability of Internet Resources

Availability of Internet Resources	No. of MFIs	in %
Website	10	29
No Website	24	71

[4]The report is published by the Centre for Microfinance and Livelihood, Assam in February 2010. According to the report, NGOs are defined as organizations registered under Societies Registration Act, 1860 or under the Indian Trust Act and which are mainly engaged in livelihood based development activities including provision of support services. NGO-MFIs are NGOs engaged in microfinance activities apart from the activities defined for NGOs. MFIs are organizations exclusively engaged only in microfinance.

3.8. Statistical Tools:

To find the financial performance of the MFIs, ratio analysis was undertaken. Basic relevant descriptive statistical tools viz., mean, standard deviation, confidence intervals were used to analyze the financial ratios. For the purpose of comparing the financial performance of the MFIs of Assam, the methodology used was difference of means test. The dataset represents a moderate sample (n = 34), which is greater than 30. As per the Central Limit Theorem, it can be assumed that the sampling distribution is approximately normal. However, since the population standard deviation, σ is not known, so one sample t-test was used (Carver & Nash, 2007, pp. - 116). Two softwares viz., MS Excel, and SPSS (Version 16) are used to analyse the data of this study.

To analyze the social performance and dynamics of the MFIs, average, frequency, percentage, graphical tools like radar, pie chart, histogram, line and bar diagrams were used.

3.9. Nature of Work:

The nature of the present research work is descriptive and empirical in nature. The research used the deductive approach in which data would be collected and theory developed as a result of data analysis. Therefore no such specific hypothesis is formed as it is done when inductive approach is used for the research.

3.10. Chapter Summary

This chapter contains details of the preliminary survey and the research design of this study. The variables that were considered to achieve the objectives of this study are also explained here. The sampling design and the details of the statistical tools applied are also presented in this chapter.

Chapter 4

Financial Performance of MFIs

CHAPTER 4: FINANCIAL PERFORMANCE OF MFIs

A variety of measurements have been used to determine MFIs' performances, many of which have been considered as standard performance indicators, inspired from formal banking and other financial institutions. On closer examination, it was evident that these standard indicators were being calculated and applied in different ways. This led to confusion among practitioners and analysts, and it became difficult to compare the performances of MFIs.

To measure the financial performance of selected microfinance institutions in Assam, 30 ratios were calculated along six dimensions viz., (i) Profitability, (ii) Portfolio Risk, (iii) Financial Management, (iv) Sustainability, (v) Efficiency, and (vi) Productivity. The ratios were calculated for the three financial years viz., 2007-2008, 2008-2009 and 2009-2010. For the purpose of comparing the performance of the MFIs of Assam, the methodology used here was difference of means test as explained in chapter 3.

After measuring the performances of the sample MFIs in terms of various ratios, a comparison of these ratios were made with their respective National benchmark ratios. Microfinance Information Exchange (MIX), a non-profit company founded by CGAP (the Consultative Group to Assist the Poor) published a Microfinance Benchmarking Report on Asia in March 2010. This comparison would help the MFIs to assess and improve their performance with respect to the national benchmark in the respective area. In this CGAP report, the benchmark ratios are available for the year 2008. The microfinance sector as a whole is an unorganized sector and data of the MFIs is not largely available. So in the absence of the benchmark ratios for the years 2009 and 2010, the sample averages of most of the ratios are compared with the benchmark ratios of 2008. Out of 30 ratios considered in this study, the India benchmark is available for 24 ratios. The sample averages of these 24 ratios was calculated and compared with these National benchmark ratios. For the remaining 6 ratios, the sample average was calculated. The application of difference of means test has been done at $\alpha = 0.05$ for various categories of ratios for 2007-08, 2008-09, 2009-

2010 and average of these three years' ratio. A single year's ratio can at times misrepresent the institution's "true" performance. So the average performances of the particular ratio for the last three years were calculated. In order to test the null hypothesis assumption that the average performance of a particular ratio of the MFIs of Assam was equal to that of the National benchmark of that ratio, a one-tailed t-test was conducted.

4.1. Profitability of the MFIs of Assam:

Profitability of the MFIs of Assam was measured by four ratios viz., (i) Return on Asset (ROA), (ii) Return on Equity (ROE), (iii) Portfolio Yield (PY), and (iv) Profit Margin (PM).

4.1.1. Return on Asset (ROA):

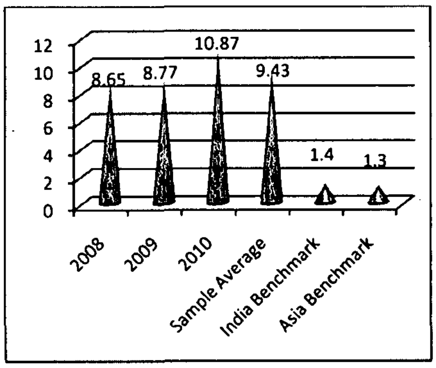
The ROA benchmarks for India and Asia for the year 2008 were 1.4 and 1.3 respectively. The following are the null and alternative hypothesis tested for the sample average ROA performances of the MFIs. Results are compared to the Indian benchmark of the corresponding ratios. Asian benchmarks are given only for reference.

H_0: ROA (Sample Average) = 1.40 and, H_1: ROA (Sample Average) > 1.40

Table 4.1: Descriptive Statistics & t-test of ROA Averages

Descriptive Statistics & t-Test Results	ROA (2008)	ROA (2009)	ROA (2010)	ROA (Sample Average)
Mean	8.65	8.77	10.87	9.43
Standard Deviation	14.61	20.54	20.31	15.76
df	33.00	33.00	33.00	33.00
N	34.00	34.00	34.00	34.00
95% Confidence Interval - Lower	3.55	1.61	3.78	3.93
95% Confidence Interval - Upper	13.74	15.94	17.96	14.93
t (Test Value = 1.40)	3.45	2.49	3.12	3.49
P Value (One-tailed)	0.00075	0.0090	0.00185	0.0007

Figure 4.1: ROA Averages



The data reveals that the sample average ROA earned by the MFIs of Assam over the last three years was 9.43 with a standard deviation of 15.76. As the p value of the one-tailed t-test of average ROA (0.00070) was less than 0.05, so the null hypothesis was rejected.

Table 4.2 and Table 4.3 show the MFIs having individually high average ROAs and low average ROAs respectively. Only those individual MFI's average ROAs were considered to be exceptionally high and low if it fell beyond 95% upper and lower confidence interval respectively. From the above analysis, it may be concluded that the sample MFIs of Assam were earning higher ROAs compared to the National ROA benchmark of 1.40 and this result was found to be statistically significant at 5% level of significance.

Table 4.2: High ROA Performers

MFI Name	ROA (Avg.)	Scale[5]
JPYS	74.07	Medium
ROAD	43.35	Medium
DPYS	41.56	Small
AGUP	26.52	Medium
BJS	21.14	Small

Annexure XX provides the ROA sample average, ROA sample averages of the MFIs for the three years mentioned above as well as the individual average ROAs of the sample MFIs. Similar calculation is done for the rest of the other 29 ratios.

Table 4.3: Low ROA Performers

MFI Name	ROA (Avg.)	Scale
SATRA	3.50	Big
RMI	3.43	Medium
MASK	3.41	Medium
MZGPS	3.28	Big
WDS	2.66	Medium
RGVN NEM.	2.07	Big
ASC	1.76	Big
PRDS	1.49	Medium
MACC	1.44	Big
DC	1.12	Big
NCS	1.11	Big
GS	0.81	Big
ASOMI	0.31	Big
SDC	-2.72	Big
AGUS	-9.33	Medium

4.1.2. Return on Equity (ROE): This ratio is a measure of paramount importance since it measures the return on shareholders' investment in the institution. However, given that many MFIs are not-for-profit-organizations, the ROE indicator is most often used as a proxy for commercial viability. The average ROE benchmarks for India and Asia for the year 2008 were 12% and 9.6% respectively. The following are the null and alternative hypothesis tested for the sample average ROE performances of the sample MFIs.

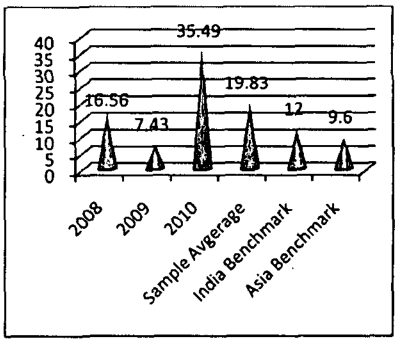
[5] MFIs having total asset of more than Rs.1 crore are considered to be big, medium if total asset lies between Rs.10 lakhs and 1 crore, and small if total asset is less than Rs.10 lakhs. See Annexure XXI.

H_0: ROE (Sample Average) = 12 and, H_1: ROE (Sample Average) > 12

Table 4.4: Descriptive Statistics & t-test of ROE Averages

Descriptive Statistics & t-Test Results	ROE (2008)	ROE (2009)	ROE (2010)	ROE (Sample Average)
Mean	16.56	7.43	35.49	**19.83**
Standard Deviation	33.28	157.37	39.48	49.06
df	33	33	33	33
N	34	34	34	34
95% Confi. Int. - Lower	4.95	-47.47	21.72	2.71
95% Confi. Int. - Upper	28.18	62.34	49.26	36.95
t (Test Value = 12)	2.90	0.28	5.24	2.36
P Value (One-tailed)	0.00328	0.39233	0.00000	0.01225

Figure 4.2: ROE Averages



The sample data reported that the average ROE earned by the MFIs of Assam over the last three years was 19.83% with a standard deviation of 49.06. As the p value of the one-tailed t test of sample average ROE (0.01225) was less than 0.05, so the null hypothesis was rejected. Therefore, it may be concluded that the sample MFIs of Assam were earning higher ROE compared to the National ROE benchmark of 12% and this result was found to be statistically significant at 5% level of significance.

Only those individual MFI's average ROEs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average ROEs and low average ROEs are given below.

Table 4.5: High ROE Performers

MFI Name	ROE (Avg.)	Scale
ROAD	91.72	Medium
MZGPS	91.57	Big
JPYS	74.37	Big
RGVN NEM	58.23	Big
GVM	57.56	Medium
GSEDC	39.85	Medium

Table 4.6: Low ROE Performers

MFI Name	ROE (Avg.)	Scale
ASOMI	0.64	Big
AGUS	-14.35	Medium
SDC	-24.33	Big
SSUS	-274.11	Big

4.1.3. Portfolio Yield (PY): It measures how much an MFI actually received as interest payments from its clients during a particular period. Portfolio yield is the initial indicator of an institution's ability to generate revenue with respect to its capacity to cover financial and operating expenses. Portfolio yield cuts through the window dressing resorted to by MFIs to disguise their lending rates like flat rates, training fees, upfront fees, discounts from disbursed amounts, etc. Portfolio yield shows how much, on average, the MFI really receives as interest payments on its loans. The average portfolio yield benchmarks for India and Asia for the year 2008 were 25.2% and 29.1% respectively. The following are the null and alternative hypothesis tested for the sample average PY performance of the sample MFIs.

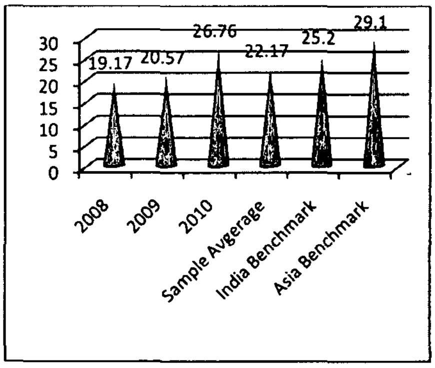
H_0: PY (Sample Average) = 25.2 and, H_1: PY (Sample Average) < 25.2

The sample data reported that the average PY earned by the MFIs of Assam over the last three years was 22.17% with a standard deviation of 14.31. As the p value of the one-tailed t test for the average portfolio yield (0.1126) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average PY performances of the sample MFIs of Assam were similar compared to the National portfolio yield benchmark of 25.2% and this result was found to be statistically significant at 5% level of significance.

Table 4.7: Descriptive Statistics & t-test of PY Averages

Descriptive Statistics & t-Test Results	PY (2008)	PY (2009)	PY (2010)	PY (Sample Average)
Mean	19.17	20.57	26.76	**22.17**
Standard Deviation	14.08	19.08	26.06	14.31
df	33.00	33.00	33.00	33.00
N	34.00	34.00	34.00	34.00
95% Confidence Interval - Lower	14.25	13.91	17.67	17.18
95% Confidence Interval - Upper	24.08	27.23	35.86	27.16
t (Test Value = 25.2)	-2.50	-1.41	0.35	-1.24
P Value (one-tailed)	0.0588	0.0833	0.3642	0.1126

Figure 4.3: PY Averages



Only those individual MFI's average PYs among the MFIs were considered to be exceptionally high and low if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average PYs and low average PYs are shown in Table 4.8 and Table 4.9 respectively.

Table 4.8: High Portfolio Yield Performers

MFI Name	High PY (Avg.)	Scale
GM	73.39	Small
GVM	52.24	Medium
RGVN	50.39	Big
SSUS	37.62	Big
AGUP	36.65	Medium
MASK	33.69	Medium
PROCHES	29.13	Big
BJS	28.49	Small

Table 4.9: Low Portfolio Yield Performers

MFI Name	Low PY (Avg.)	Scale
GS	16.51	Big
PANCHARA	14.62	Medium
ASC	14.55	Big
MANDAL	14.31	Medium
RENEISSAN	13.81	Medium
JPYS	12.69	Medium
DPYS	12.65	Small
DASK	12.55	Small
SATRA	12.30	Big
MZGPS	9.81	Big
ROAD	8.52	Medium
SDC	8.25	Big
AGUS	6.86	Medium
ASOMI	6.35	Big

4.1.4. Profit Margin (PM): This ratio is also a measure of profitability of MFIs and measures what percentage of operating revenue remains after all financial, loan-loss provision, and operating expenses are paid. Profit margin was considered the most important measure of divisional performance (Anthony & Govindarajan, 2007; Drury, 2000). The average PM benchmarks both for India and Asia for the year 2008 was 8%. The following are the null and alternative hypothesis tested for the sample average PM performance of the sample MFIs.

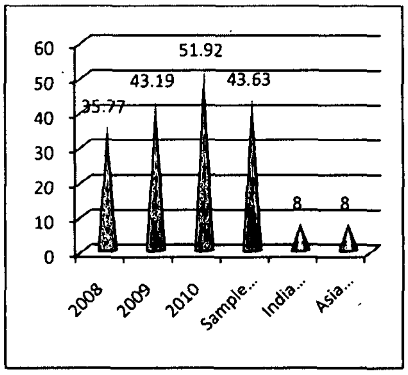
H_0: PM (Sample Average) = 8 and, H_1: PM (Sample Average) > 8

The sample data reported that the average PM earned by the MFIs of Assam over the last three years was 43.63% with a standard deviation of 30.13. As the p value of the one-tailed t test of average PM (0.00) was less than 0.05, so the null hypothesis was rejected. Therefore it may be concluded that the average PM performance of the sample MFIs of Assam was higher compared to the National PM benchmark of 8% and this result was found to be statistically significant at 5% level of significance.

Table 4.10: Descriptive Statistics & t-test of PM Averages

Descriptive Statistics & t-Test Results	PM (2008)	PM (2009)	PM (2010)	PM (Sample Average)
Mean	35.77	43.19	51.92	**43.63**
Standard Deviation	39.41	33.58	31.01	30.13
N	34.00	34.00	34.00	34.00
df	33.00	33.00	33.00	33.00
95% Confi. Int. - Lower	22.02	31.47	41.10	33.11
95% Confi. Int. - Upper	49.52	54.91	62.74	54.14
t (One Sample, Test Value=8)	4.11	6.11	8.26	6.90
P Value (One-tailed)	0.0000	0.0000	0.0000	0.0000

Figure 4.4.: PM Averages



Only those individual MFI's averages PM of the MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average PMs and low average PMs are shown in the following tables respectively.

Table 4.11: MFIs with High Profit Margin

MFI Name	PM (Avg.)	Scale
AGUP	94.60	Medium
CRD	86.93	Big
SATRA	83.97	Big
GVM	80.74	Medium
RGVN	73.23	Big
GSEDC	70.73	Medium
LSS	70.22	Medium
PANCHARATNA	69.37	Medium
MASK	67.56	Medium
WDS	64.83	Medium
RGVN NEM	61.58	Big
MZGPS	60.52	Big
GM	60.05	Small
PROCHESTA	59.33	Big
NCS	58.18	Big
DASK	55.03	Small

Table 4.12: MFIs with Low Profit Margin

MFI Name	PM (Avg.)	Scale
AAMIVA	24.16	Small
SDC	21.69	Big
ASOMI	20.76	Big
SSUS	3.56	Big
MACC	1.44	Big
RENEISSANCE	0.92	Medium
RMI	0.39	Medium
DPYS	0.15	Small
JPYS	-1.56	Medium
MANDAL	-2.3	Medium
AGUS	-3.64	Medium

Therefore, regarding the profitability performance of the selected MFIs of Assam, it has been observed that the sample MFIs are earning higher return on asset (ROA), return on equity (ROE) and profit margin (PM) compared to their corresponding National benchmarks. The portfolio yield of the sample MFIs are found to be at par with the National benchmark. Thus it may be concluded that the performance of the sample MFIs of Assam in terms of 'profitability' is found to be satisfactory.

4.2. Portfolio Quality of the MFIs of Assam.

The portfolio quality of the MFIs of Assam were measured by four ratios viz., (i) Portfolio at Risk (PAR >30 Days), (ii) Write-off Ratio (WOR), (iii) Risk Coverage Ratio (RCR), and (iv) Provision Expense Ratio (PER).

4.2.1. Portfolio at Risk (PAR>30): PAR is calculated by dividing the outstanding balance of all loans with arrears over 30 days, plus all refinanced (restructured) loans, by the outstanding gross portfolio as of a certain date. This ratio is the most widely accepted measure of portfolio quality. It shows the portion of the portfolio that is "contaminated" by arrears and therefore at the risk of not being repaid. The older the delinquency, the less likely that the loan will be repaid. Generally speaking, any portfolio at risk (PAR>30) exceeding 10% should be cause for concern, because unlike commercial loans, most microcredits are not backed by bankable collateral (Abate, et. al., 2002). The average PAR benchmark both for India and Asia for the year 2008 was 0.40%. The following are the null and alternative hypothesis tested for the sample average PM performances of the sample MFIs.

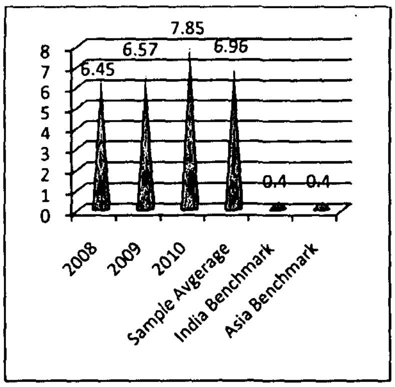
H_0: PAR (Sample Average) = 0.40 and, H_1: PAR (Sample Average) > 0.40

The sample data reported that the average PAR of the sample MFIs of Assam over the last three years was 6.96% with a standard deviation of 8.37. As the p value of the one-tailed t test was less than 0.05, so the null hypothesis was rejected. Therefore it may be concluded that the average PAR (30 days) of the sample MFIs of Assam was higher compared to the National PAR (30 days) benchmark of 0.40% and Asian PAR (30 Days) of 1.5% and this result was found to be statistically significant at 5% level of significance.

Table 4.13: Descriptive Statistics & t-test of PAR Averages

Descriptive Statistics & t-Test Results	PAR-30 (2008)	PAR-30 (2009)	PAR-30 (2010)	PAR-30 (Sample Average)
Mean	6.45	6.57	7.85	6.96
Standard Deviation	8.37	8.54	9.07	8.37
N	34.00	34.00	34.00	34.00
df	33.00	33.00	33.00	33.00
95% Confidence Interval - Lower	3.53	3.59	4.69	4.04
95% Confidence Interval - Upper	9.37	9.55	11.01	9.88
t (Test Value = 0.40)	4.21	4.22	4.79	4.57
P Value (One-tailed)	0.0000	0.0000	0.0000	0.0000

Figure 4.5: PAR (30) Averages



Only those individual averages PAR of the MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs individually having high PARs and low average PARs are shown in the following tables respectively.

Table 4.14: MFIs with High PAR > 30 Days

MFI Name	PAR (Avg.)	Scale
CRD	32.33	Big
PRDS	31.32	Medium
ASOMI	20.40	Big
MANDAL	17.86	Medium
AGUP	17.83	Medium
JPYS	14.39	Medium
AGUS	12.76	Medium
DPYS	11.23	Small
RMI	10.33	Medium

Table 4.15: MFIs with Low PAR > 30 Days

MFI Name	PAR (Avg.)	Scale
ROAD	2.67	Medium
RENEISSANCE	2.62	Medium
DC	2.60	Big
LSS	2.50	Medium
RGVN	2.41	Big
PANCHARATNA	2.38	Medium
GVM	2.22	Medium
SSUS	2.03	Big
AD	1.77	Small
SATRA	1.71	Big
DASK	1.58	Small
PROCHESTA	1.42	Big
GS	1.41	Big
GM	1.34	Small
MACC	1.14	Big
ASC	0.61	Big
NCS	0.53	Big
BJS	0.19	Small

4.2.2. Write-Off Ratio (WOR): The Write-Off Ratio is calculated by dividing total write-offs for the period by the period's average gross loan portfolio. This indicator simply represents the loans that the institution has removed from its books because of a substantial doubt that they will be recovered. The writing off of a loan affects the gross loan portfolio and loan loss reserves equally. Write-offs have no bearing whatsoever on collection efforts or on the client's obligation to repay. Write-off policies also vary widely among MFIs.

The average WOR benchmarks for India and Asia for the year 2008 were 0.10% and 0.40% respectively. The following are the null and alternative hypothesis tested for the sample average WOR performance of the sample MFIs.

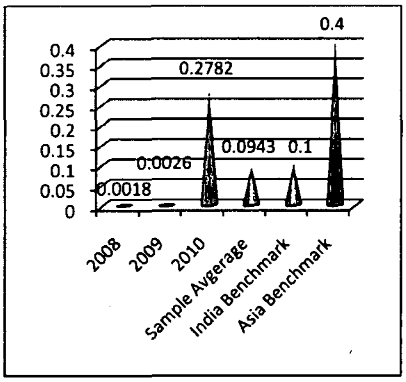
H_0: WOR (Sample Average) = 0.10 and, H_1: WOR (Sample Average) < 0.10

The sample data reported that the average WOR of the sample MFIs of Assam over the last three years was 0.09%. As the p value of the one-tailed t test for the average WOR (0.4725) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore it may be concluded that the average WOR performance of the sample MFIs of Assam was similar compared to the National WOR benchmark and this result was found to be statistically significant at 5% level of significance.

Table 4.16: Descriptive Statistics of WOR during 2008-2010

Descriptive Statistics & t-Test Results	WOR (2008)	WOR (2009)	WOR (2010)	WOR (Sample Average)
Mean	0.0018	0.0026	0.2782	**0.0943**
Std. Deviation	0.0076	0.0154	1.4188	0.4733
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	0.00	0.00	-0.22	-0.07
95% Confidence Interval - Upper	0.00	0.01	0.77	0.26
t (Test Value=0.10)	-75.61	-36.78	0.73	-0.07
P Value (One-tailed)	0.0000	0.0000	0.2345	0.4725

Figure 4.6: WOR Averages



Only those individual averages WOR of the MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. None of the sample MFIs was found to have exceptionally low RCR compared to the National RCR benchmark. The MFIs having individually high average WORs are shown in the following table.

Table 4.17: MFIs with High WOR

MFI Name	WOR (Avg.)	Scale
DC	2.7467	Big
RGVN NEM	0.3567	Big

4.2.3. Risk Coverage Ratio (RCR): The Risk Coverage Ratio is calculated by dividing loan loss reserves by the outstanding balance in arrears over 30 days plus refinanced loans. This measure shows what percent of the portfolio at risk is covered by actual loan loss reserves. It gives an indication of how prepared an institution is for a worst-case scenario.

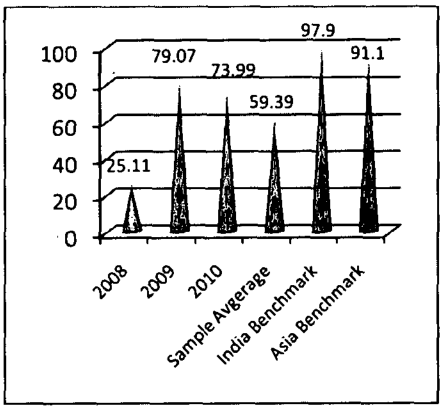
The average RCR benchmarks for India and Asia for the year 2008 were 97.9% and 91.1% respectively. The following are the null and alternative hypothesis tested for the sample average RCR performances of the sample MFIs.

H_0: RCR (Sample Average) = 97.9 and, H_1: RCR (Sample Average) < 97.9

Table 4.18: Descriptive Statistics & t-test of RCR Averages

Descriptive Statistics & t-Test Results	RCR (2008)	RCR (2009)	RCR (2010)	RCR (Sample Average)
Mean	25.11	79.07	73.99	**59.39**
Std. Deviation	70.83	313.01	204.39	171.46
N	34	34	34	34
df	33	33	33	33
Mean Difference	-72.79	-18.83	-23.91	-38.51
95% Confidence Interval - Lower	0.40	-30.15	2.67	-0.44
95% Confidence Interval - Upper	49.82	188.28	145.30	119.21
t (Test Value = 97.9)	-5.992	-0.351	-0.682	-1.310
P Value (one-tailed)	0.00	0.36	0.25	0.10

Figure 4.7: RCR Averages



The sample data reported that the average RCR of the sample MFIs of Assam over the last three years was 59.39% with a standard deviation of 171.46. As the p value of the one-tailed t test for the average RCR (0.10) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore it may be concluded that the average RCR performance of the sample MFIs of Assam was similar compared to the National RCR benchmark and this result was found to be statistically significant at 5% level of significance.

Only those individual averages RCR of the MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. None of the sample MFIs of Assam was found to have exceptionally low RCR compared to the National RCR benchmark. The MFIs having individually high RCRs are shown in the following table.

Table 4.19: MFIs with High RCR

MFI Name	RCR (Avg.)	Scale
NCS	865.11	Big
PROCHESTA	380.68	Big
ASC	327.22	Big
DC	282.73	Big

4.2.4. Provision Expense Ratio (PER): This ratio is calculated by dividing the loan loss provisioning expense for the period by the average gross portfolio. This measure gives an indication of the expense incurred by the institution to anticipate future loan losses. For established MFIs, local banking and tax laws generally prescribe the minimum rate at which they must make provisions to allow for loan losses. NGOs, on the other hand, follow a wide variety of practices, including making no provisions at all, provisioning a certain percentage of new loans, or relating provisions to the quality of the portfolio.

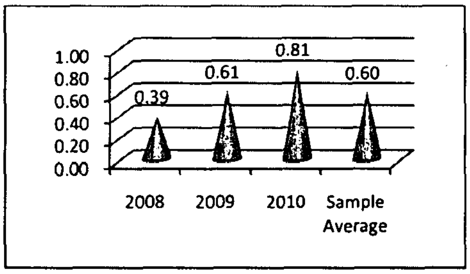
MFIs need stricter provisioning practices than banks or finance companies because their loans are less collateralized. Provisioning policies and reserve levels associated with banking are inadequate for a microcredit portfolio. In some cases, there may also exist incentives to over-provision, particularly among NGOs, in order to hide profits that could undermine access to donor subsidies. On the other hand, by simply scaling back on its provision expenses, an MFI can turn a looming loss into a profit for a year or two. In general, provisioning practices need to be closely watched since NGOs are tempted to misuse provision expenses to manage their profitability (Abate et al., 2002).

In the absence of National benchmark for provision expense ratio (PER), the individual performance of the sample MFIs was calculated and a PER sample average was found for the 34 MFIs. The sample data reported that the average provision expense ratio (PER) of the sample MFIs of Assam over the last three years was 0.6006 with a standard deviation of 1.44. The average PER of the sample MFIs for the three financial years 2007-2008, 2008-2009, and 2009-2010 was found to be 0.3853, 0.6085, and 0.8076 respectively. Thus we see that the average PERs of the sample MFIs have increased over the years.

Table 4.20: Descriptive Statistics of PER Averages

Descriptive Statistics	PER (2008)	PER (2009)	PER (2010)	PER (Sample Average)
Mean	0.3853	0.6085	0.8076	**0.6006**
Standard Deviation	0.8939	1.4212	2.0797	1.4402
N	34	34	34	34

Figure 4.8: PER Averages



A study conducted by Stauffenberg et al., (2003) reported that the provision expense ratios for the 32 Latin American microfinance institutions compiled by MicroRate vary between 0.40% and nearly 7% and the average PER has been decreasing since 2000, reflecting the improvement in portfolio quality. Ejigu (2009) studied 16 Ethiopian MFIs and found that the average provision expense ratio of the sample MFIs was 0.70%. Thapa (2009) studied 101 Asian MFIs (from five countries, namely, Bangladesh, Cambodia, India, Philippines, and Pakistan) to assess performance and to identify challenges and opportunities facing Asian microfinance and found that the average provision expense ratio of the MFIs of Asia was 1.8%. The present study finds that the average provision expense ratio of the sample MFIs of Assam is 0.60%.

Therefore, regarding the portfolio quality of the selected MFIs of Assam, it has been observed that the sample MFIs are performing at par with their National benchmarks in terms of write-off ratio (WOR) and rick coverage ratio (RCR). But, the portfolio at risk (PAR>30 days) of the sample MFIs are found to be much higher than the National benchmark and not a favorable performance indicator of the sample MFIs.

4.3. Financial Management of the MFIs

The financial management of the MFIs of Assam were measured by four ratios viz., (i) Debt Equity Ratio (DER), (ii) Cost of Fund Ratio (CFR), (iii) Portfolio to Asset Ratio (PTA), and (iv) Funding Expense Ratio (FER).

4.3.1. Debt Equity Ratio (DER): This ratio is calculated by dividing total liabilities by total equity. Total liabilities include everything the MFI owes to others, including deposits, borrowings, accounts payable and other liability accounts. Total equity is total assets less total liabilities. The debt equity ratio is the simplest and best-known measure of capital adequacy because it measures the overall leverage of the institution. If the debt to equity ratio increases rapidly, the MFI may be approaching its borrowing limits, which in turn will force it to curtail growth. Also, rapid increases in debt funding are bound to put pressure on profit margins. If much of its liabilities consist of very long-term donor funding, a high debt to equity ratio obviously represents less of a risk than if the MFI relies on short-term lines of credit.

The average DER benchmarks for India and Asia for the year 2008 were 6.2 and 4.5 respectively. The following are the null and alternative hypothesis tested for the sample average DER performance of the sample MFIs.

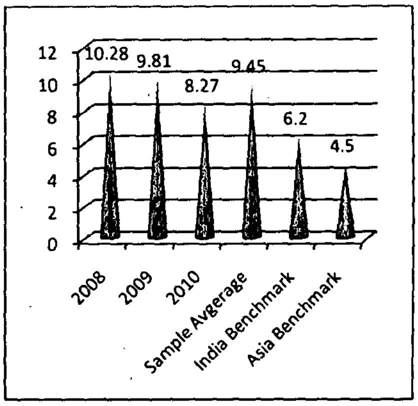
H_0: DER (Sample Average) = 6.20 and, H_1: DER (Sample Average)> 6.20

The sample data reported that the average DER of the MFIs of Assam over the last three years was 9.45 with a standard deviation of 22.39.

Table 4.21: Descriptive Statistics & t-Test of DER Averages

Descriptive Statistics & t-Test Results	DER (2008)	DER (2009)	DER (2010)	DER (Sample Average)
Mean	10.28	9.81	8.27	**9.45**
Standard Deviation	24.87	38.51	23.88	22.39
N	34	34	34	34
Df	33	33	33	33
95% Confidence Interval – Lower	1.60	-3.62	-0.06	1.64
95% Confidence Interval – Upper	18.95	23.25	16.60	17.26
t (One Sample, Test Value = 6.2)	0.955	0.547	0.506	0.847
P Value (One-tailed)	0.173	0.294	0.3085	0.2015

Figure 4.9: DER Averages



As the p value of the one-tailed t test of the average DER (0.2015) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average DER performance of the sample MFIs of Assam was similar as that of the National DER benchmark and this result was found to be statistically significant at 5% level of significance.

Only those individual average DERs among the sample MFIs were considered to be exceptionally high and low if it fell beyond 95% upper and lower confidence interval respectively.

The MFIs having high DER and low DER are shown in Table 4.22 and Table 4.23 respectively.

Table 4.22: MFIs with High DER

MFI Name	DER (Avg.)	Scale
ASC	92.43	Big
GS	62.95	Big
NCS	38.05	Big
AAMIVA	34.34	Small
MZGPS	33.25	Big
RGVN NEM	25.31	Big

Table 4.23: MFIs with Low DER

MFI Name	DER (Avg.)	Scale
ROAD	1.40	Medium
RENEISSANCE	1.28	Medium
BJS	0.78	Small
DASK	0.77	Small
GM	0.59	Small
MASK	0.51	Medium
AGUS	0.49	Medium
AGUP	0.48	Medium
ASOMI	0.34	Big
DPYS	0.08	Small
AD	0.03	Small
JPYS	0.02	Medium
PRDS	-14.16	Medium
SSUS	-41.59	Big

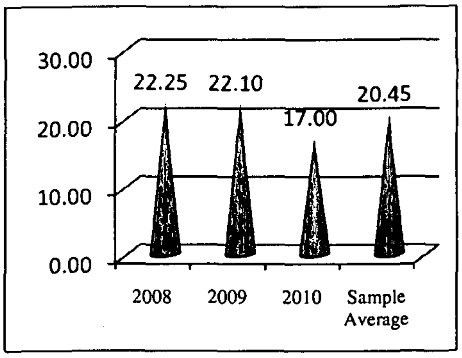
4.3.2. Cost of Fund Ratio (CFR): This ratio is calculated by dividing interest and fee expenses on funding liabilities by period average funding liabilities. The denominator contains all funding liabilities of the institution, including deposits, commercial funds, subsidized funds and quasi-capital. It does not include other liabilities, such as accounts payable or a mortgage loan an MFI may have obtained to finance its offices. This ratio measures the average cost of the company's borrowed funds. In comparing MFIs, the cost of funds ratio shows whether they have gained access to low cost funding sources such as savings. MFIs that can mobilize savings tend to have relatively low cost of funds. However, this advantage is offset to some extent by the higher administrative cost of mobilizing savings.

In the absence of National benchmark for cost of fund ratio (CFR), the individual performances of the sample MFIs were calculated and a sample average CFR was found for the 34 MFIs. The sample data reported that the average of cost fund ratio (CFR) of the sample MFIs of Assam over the last three years was 20.45 with a standard deviation of 34.01. The average CFRs of the sample MFIs for the three financial years 2007-2008, 2008-2009, and 2009-2010 was found to be 22.25, 22.10, and 17.00 respectively. Thus we see that the average CFRs of the sample MFIs have decreased from 2007-08 to 2009-10.

Table 4.24: Descriptive Statistics of CFR Averages

Descriptive Statistics	CFR (2008)	CFR (2009)	CFR (2010)	CFR (Sample Average)
Mean	22.25	22.10	17.00	**20.45**
Standard Deviation	44.00	54.65	23.72	34.01
N	34	34	34	34

Figure 4.10: CFR Averages



FINCON Services Inc. (2009) conducted an assessment of the National Rural Support Program's Microcredit Program in Pakistan and found that the cost of fund ratio to be 12.69% in 2008. A study conducted by MicroFinanza Rating (2009) reported that the cost of fund ratio had increased to 12.2% (up from 9.8% in 2007 and 5.6% in 2006, respectively) in Tajikistan in 2008. Stauffenberg et al., (2003) reported that the cost of fund ratio for the 32 Latin American microfinance institutions vary from 2.1% to 21%. The present study finds that the average cost of fund ratio of the sample MFIs of Assam is 20.45% which is on the higher side but has been decreasing over the last three years period 2007-2010.

4.3.3. Portfolio to Asset (PTA): This ratio measures the MFI's allocation of assets to its lending activity. Managers can also use the ratio to identify fluctuations that may result from structural or operational rigidities that cause a high number of loans to be disbursed or repaid at the same time. Depending on the context, this ratio could indicate the need for additional funding or be a sign of excess liquidity. MFIs that rely heavily on savings to fund their portfolio tend to be more efficient at maintaining a high and steady Portfolio to Assets ratio.

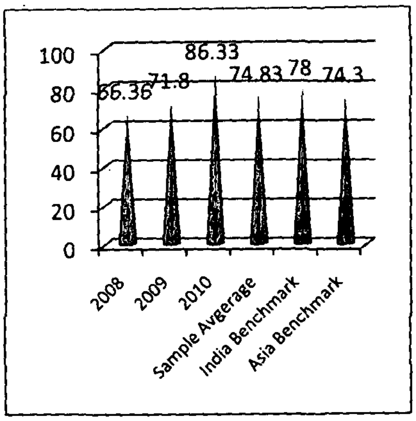
According to MIX Market report of 2008, the average PTA benchmarks for India and Asia for the year 2008 were 78% and 74.3% respectively. The following are the null and alternative hypothesis tested for the sample average PTA performances of the sample MFIs.

H_0: PTA (Sample Average) = 78 and, H_1: PTA (Sample Average) > 78

Table 4.25: Descriptive Statistics & t-Test of PTA Averages

Descriptive Statistics & t-Test Results	PTA (2008)	PTA (2009)	PTA (2010)	PTA (Sample Average)
Mean	66.36	71.80	86.33	**74.83**
Standard Deviation	39.60	41.17	89.88	44.10
N	34	34	34	34
Df	33	33	33	33
95% Confidence Interval - Lower	52.54	57.44	54.96	59.44
95% Confidence Interval - Upper	80.17	86.17	117.69	90.22
t (One Sample, Test Value = 78)	-1.71	-0.88	0.54	-0.42
P Value (One-tailed)	0.0480	0.1930	0.2965	0.3390

Figure 4.11: PTA Averages



The sample data reports that the average PTA of the MFIs of Assam over the last three years was 74.83 with a standard deviation of 44.1 as shown in Table 4.27. As the p value of the one-tailed t test of the average PTA (0.3390) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore it may be concluded that the average PTA performance of the sample MFIs of Assam was similar to the National PTA benchmark and this result was found to be statistically significant at 5% level of significance.

Table 4.26: MFIs with High Portfolio to Asset

MFI Name	High PTA (Avg.)	Scale
DPYS	250.90	Small
ROAD	157.18	Medium
MASK	130.31	Medium
AAMIVA	124.61	Small
WDS	97.34	Medium
GSEDC	95.21	Medium
ASC	92.43	Big

Table 4.27: MFIs with Low Portfolio to Asset

MFI Name	Low PTA (Avg.)	Scale
ASOMI	52.72	Big
CRD	51.92	Big
MANDAL	49.59	Medium
LSS	49.10	Medium
PROCHESTA	48.82	Big
DASK	40.88	Small
MACC	39.99	Big
BJS	32.53	Small
RGVN	28.81	Big
AGUS	24.57	Medium
AGUP	19.54	Medium
JPYS	17.48	Medium

Only those individual average PTAs among the sample MFIs were considered to be exceptionally high and low if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average PTAs and low average PTAs are shown in Table 4.26 and Table 4.27 respectively.

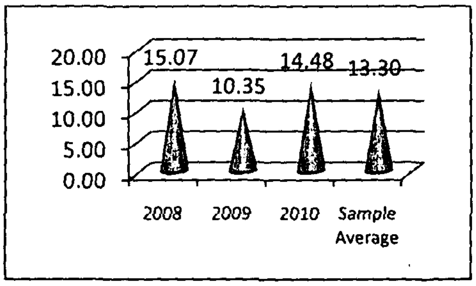
4.3.4. Funding Expense Ratio (FER): This ratio is calculated by dividing interest and fee expenses on funding liabilities by the period average gross portfolio. This ratio measures the total interest expense incurred by the institution to fund its loan portfolio. The funding expense ratio is not the institution's credit spread, nor the average interest rate at which it borrows. Rather, this measure is used to help determine the minimum lending rate an MFI must charge in order to cover its costs. An institution with a high funding expense ratio may in fact be very profitable if its leverage is high. Conversely, a low funding expense ratio may be a sign of low leverage and therefore tends to go hand in hand with a low return on equity. This ratio tends to increase as the MFI becomes less dependent on donations and thus an increasing FER may be regarded as a good performance to some extent. For MFIs collecting savings, this ratio will probably be lower, but the operating expense ratio will be most likely higher.

In the absence of National benchmark for funding expense ratio (FER), the individual performances of the sample MFIs were calculated and a sample average FER was found for the 34 MFIs. The sample data reported that the average funding expense ratio (FER) of the sample MFIs of Assam over the last three years was 13.30 with a standard deviation of 22.63.

Table 4.28: Descriptive Statistics of FER Averages

Descriptive Statistics	FER (2008)	FER (2009)	FER (2010)	FER (Sample Average)
Mean	15.07	10.36	14.48	**13.30**
Standard Deviation	39.16	14.74	20.72	22.63
N	34	34	34	34

Figure 4.12: FER Averages



The average FERs of the sample MFIs for the three financial years 2007-2008, 2008-2009, and 2009-2010 was found to be 15.07, 10.36, and 14.48 respectively. Thus we see that the average FERs of the sample MFIs have decreased from 2007-08 to 2008-09, but again it has increased in 2009-2010.

Funding expense ratio says more about the financial structure of MFIs than about its cost of borrowing. African Microfinance Transparency (2008) studied 47 African MFIs and found that the funding expense ratio vary between 0% to 18.4%. Stauffenberg et al., (2003) reported that the funding expense ratio for 32 Latin American MFIs had decreased from 11.1% in 2000 to 10.0% in 2001 to an average of 8.3% in 2002. Stauffenberg et al., (2003) also reported that the regulated MFIs with their much higher debt/equity ratios (average leverage 6.1) had an average funding expense ratio of 9.3%, whereas for NGOs (average leverage 1.6) it was 6.5%. Their study also concluded that MFIs that raise much of its funding through relatively inexpensive savings deposits had lower funding expense ratio (3.7%) despite a debt/equity ratio of 5.7:1. The present study finds that the average funding expense ratio of the sample MFIs of Assam is 13.30% and the ratio has decreased from 15.07% in 2008 to 10.36% in 2009 and again increased to 14.48% in 2010.

Therefore, regarding the financial management of the selected MFIs of Assam, it has been observed that the performance of the sample MFIs in terms of debt equity ratio (DER) and portfolio to asset ratio (PTA) is at par with their corresponding National benchmarks.

4.4. Sustainability of the MFIs of Assam

The sustainability of the MFIs of Assam was measured by four ratios viz., (i) Operating Self Sufficiency (OSS), (ii) Financial Self Sufficiency (FSS), (iii) Subsidy Dependence Index (SDI), and (iv) Repayment Rate(RR).

4.4.1. Operational Self Sufficiency (OSS): Operational self-sufficiency measures how well the MFI can cover its costs through operating revenues. The numerator of this ratio consists of total financial revenue and the denominator comprises sum of financial expense, loan loss provision expense and operating expense. Hence, a number greater than one (100%) indicates that the MFI has sufficient revenue from lending to cover its costs, including the cost of capital, accounting for bad loans, and paying operating expenses. OSS is the most basic measurement of sustainability, indicating whether revenues from operations are sufficient to cover all operating expenses. OSS focuses on revenues and expenses from the MFI's core business, excluding non-operating revenues and donations. Financial expense and impairment losses on loans are included in this calculation because they are normal (and significant) costs of operating. By focusing on cost coverage, OSS reflects the MFI's ability to continue its operations even if it receives no further subsidies.

The average OSS benchmarks for India and Asia for the year 2008 were 114.5% and 113.4% respectively. The following are the null and alternative hypothesis tested for the sample average OSS performance of the sample MFIs.

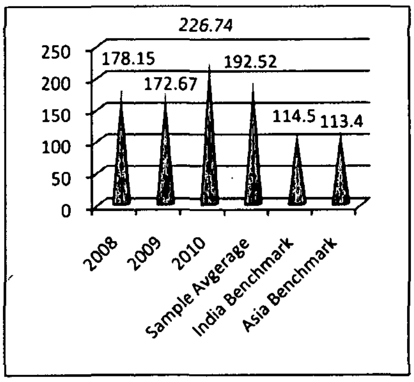
H_0: OSS (Sample Average) = 114.5 and, H_1: OSS (Sample Average) > 114.5

The sample data reported that the average OSS of the sample MFIs of Assam over the last three years was 192.52% with a standard deviation of 119.47. As the p value of the one-tailed t test for the average OSS (0.0005) was less than 0.05, so the null hypothesis was rejected. Therefore, it may be concluded that the average OSS performance of the sample MFIs of Assam was higher compared to the National OSS benchmark of 114.5% and this result was found to be statistically significant at 5% level of significance.

Table 4.29: Descriptive Statistics & t-Test of OSS Averages

Descriptive Statistics & t-Test Results	OSS (2008)	OSS (2009)	OSS (2010)	OSS (Sample Average)
Mean	178.15	172.67	226.74	**192.52**
Standard Deviation	134.10	115.85	203.70	119.47
N	34	34	34	34
df	33	33	33	33
95% Confi. Int. - Lower	131.36	132.24	155.66	150.83
95% Confi. Int. - Upper	224.94	213.09	297.81	234.20
t (One Sample Test, Test Value = 114.50)	2.77	2.93	3.21	3.81
p Value (One-tailed)	0.0045	0.0030	0.0015	0.0005

Figure 4.13: OSS Averages



Only those individual averages OSS of the MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average OSS and low average OSS are shown in Table 4.30 and Table 4.31 respectively.

Table 4.30: MFIs with High OSS

MFI Name	OSS (Avg.)	Scale
MASK	528.51	Medium
JPYS	423.73	Medium
SSUS	423.07	Big
MANDAL	371.37	Medium
ASOMI	324.62	Big
GSEDC	318.54	Medium
AD	272.23	Small
RENEISSANCE	256.12	Medium

Table 4.31: MFIs with Low OSS

MFI Name	OSS (Avg.)	Scale
GS	141.50	Big
AAMIVA	122.41	Small
RMI	117.96	Medium
SATRA	117.91	Big
PRDS	115.33	Medium
CRD	95.48	Big
SDC	94.81	Big
DC	86.25	Big
LSS	60.17	Medium
MACC	56.92	Big
DPYS	36.56	Small
BJS	34.11	Small
AGUS	33.67	Medium

4.4.2. Financial Self Sufficiency (FSS): This ratio measures how well an MFI can cover its costs taking into account adjustments to operating revenues and expenses. In other words, FSS measures how well the assets, in which the MFIs have invested, have been managed to generate profit (Gibbons & Meehan, 1999, p. 47). MFIs achieve financial self-sufficiency when they are able to cover all administrative costs, loan losses, and financing costs from operating income, after adjusting for inflation and subsidies and treating all funding as if it had a commercial cost. Successful MFIs are expected to achieve financial self-sufficiency within five to ten years (Thapa, 2009).

Institutionists prefer financial self-sufficiency and sustainability. Their argument is that a sustainable MFI will survive with its own revenues, without the help of external donors (Adams & Pischke, 1992). Welfarists say that MFIs role is to help the poor; and that sustainability should be a secondary issue (Hulme & Mosley, 1996). For some eclectics, both visions can co-exist (Morduch, 2000). Some researchers argue that striving for financial self-sufficiency will not prevent MFIs from reaching the very poor; profitability does not depend on the clientele reached, but on the degree to which the MFI is well designed and managed (Christen et al., 1995; Gibbons & Meehan, 2000). The Welfarist approach is explicit in its commitment to reaching the very poor first, while it acknowledges the need to tackle world poverty on a large scale and to strive for increased financial self-sufficiency (Woller et al., 1999). Forster et al., (2003) reported that NGOs progress towards full financial self-sufficiency over time.

The average FSS benchmarks for India and Asia for the year 2008 were 108.7% and 108% respectively. The following are the null and alternative hypothesis tested for the sample average FSS performance of the sample MFIs.

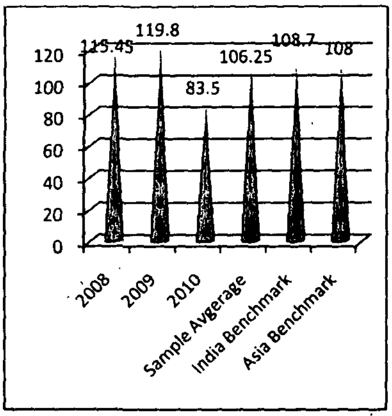
H_0: FSS (Sample Average) = 108.7 and, H_1: FSS (Sample Average) < 108.7

The sample data reported that the average FSS of the MFIs of Assam over the last three years was 106.25 with a standard deviation of 163.09. As the p value of the one-tailed t test of the average FSS (0.47) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average FSS performance of the sample MFIs of Assam was similar to the National FSS benchmark and this result was found to be statistically significant at 5% level of significance.

Table 4.32: Descriptive Statistics & t-Test of FSS Averages

Descriptive Statistics & t-Test Results	FSS (2008)	FSS (2009)	FSS (2010)	FSS (Sample Average)
Mean	115.45	119.80	83.50	**106.25**
Standard Deviation	211.19	255.83	54.71	163.09
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	41.76	30.54	64.41	49.35
95% Confidence Interval - Upper	189.14	209.06	102.59	163.15
t (One-Sample Test, Test Value = 108.7)	0.19	0.25	-2.69	-0.09
P Value (One-tailed)	0.43	0.40	0.01	0.47

Figure 4.14: FSS Averages



Only those individual MFIs' average FSS among the sample MFIs were considered to be exceptionally high and low if it fell beyond 95% upper and lower confidence interval respectively.

The MFIs having individually high average FSS and low average FSS are shown in Table 4.33 and Table 4.34 respectively.

Table 4.33: MFIs with High FSS

MFI Name	High FSS (Avg.)	Scale
AGUP	956.18	Medium
RGVN	384.62	Big

Table 4.34: MFIs with Low FSS

MFI Name	Low FSS (Avg.)	Scale
ASOMI	47.24	Big
MACC	42.76	Big
MANDAL	40.17	Medium
DPYS	38.41	Small
SDC	37.10	Big
SSUS	31.48	Big
JPYS	25.24	Medium
AAMIVA	12.99	Small
AGUS	8.14	Medium

4.4.3. Subsidy Dependence Index (SDI): The new microfinance paradigm has stimulated research on financial performance and financial efficiency of microfinance institutions. Dependence on subsidies is measured by the Subsidy Dependence Index (SDI) developed by Yaron (1992b, 1997) and used by many past researchers (Hulme & Mosley, 1996; Schreiner, 1997; Schreiner & Yaron, 1999; Sharma, 2004; Congo, 2002). The SDI is defined by Yaron (1997) as the ratio which measures the percentage increase in the average on-lending interest rate required to compensate an MFI for the elimination of subsidies in a given year while keeping the return on equity equal to the approximate non-concessional borrowing cost. SDI is calculated on the basis of the following formula:

$$IDS = \frac{S}{LP*i} = \frac{A(m-c) + [(E*m) - P] + K}{LP*i}$$

S = total subsidy
A = average public debt
m = market (reference) interest rate the MFI is assumed to pay
c = actual lending interest rate paid on concessional borrowed fund
E = annual average equity
P = profit (losses)
K = miscellaneous grants and benefits
LP = annual average loan portfolio
i = interest & fees income from loan to gross loan portfolio.

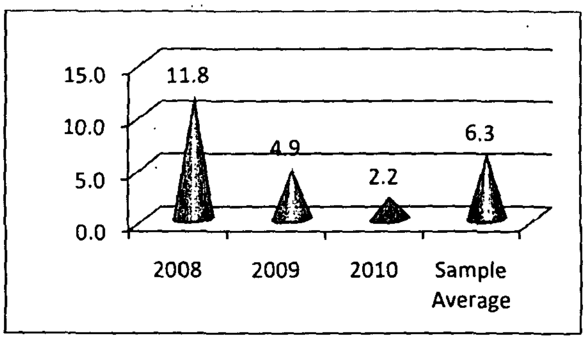
Rosenberg (2009) also suggested that OSS and SDI are technically superior measure of sustainability of MFIs compared to other measures. Richman and Fred (2010) mentioned that SDI is technically superior but less frequently used. Hulme and Mosley (1996, 1998) provided alternative measures of financial performance of some microfinance institutions and found that almost all institutes in their sample are still subsidy dependent. Morduch (1999a) provided a similar calculation for the Grameen Bank. He showed that, in order to become subsidy independent, the Grameen Bank would have needed to increase the lending rates by some 75% between 1985 and 1996. Congo (2002) reported that oldest MFIs had the lowest SDI and the youngest MFIs had the highest SDI. Richman and Fred (2010) studied sustainability of MFIs in Ghana using a panel data of 72 MFIs for the period 2003 to 2007 and the average SDI found was 0.157. SDI measures how much an MFI would have to increase its lending interest rate in order to cover all of its costs including adjustments. An SDI above zero indicates that the MFI still needs subsidy to operate i.e., it has not achieved financial sustainability.

In the absence of National benchmark for Subsidy Dependence Index (SDI), the individual SDI performances of the sample MFIs were calculated and a sample average SDI was found for the 34 MFIs. The sample data reported that the average SDI of the sample MFIs of Assam over the last three years was 6.29 with a standard deviation of 13.79. The average SDIs of the sample MFIs for the three financial years 2007-2008, 2008-2009, and 2009-2010 were found to be 11.82, 4.86, and 2.20 respectively. Thus we see that the average subsidy dependence of the sample MFIs of Assam have decreased considerably from 2007-08 to 2009-10.

Table 4.35: Descriptive Statistics of SDI Averages

Descriptive Statistics	SDI (2008)	SDI (2009)	SDI (2010)	SDI (Sample Averages)
Mean	11.82	4.86	2.20	**6.29**
Standard Deviation	30.98	12.16	10.55	13.79
N	34	34	34	34

Figure 4.15: SDI Averages



4.4.4. Repayment Rate (RR): Repayment rate is defined as the rate at which a customer repays the part of the loan in proportion to the total loan obtained. Higher repayment rate is the crux of institutional sustainability (Acharya & Acharya, 2006). Higher the rate, greater is the efficiency and vice-versa. High repayment rates are not only indicative of adequate loan terms and conditions (in line with the borrower's ability to repay) and appropriate delinquency management by the MFI; they also quantify the benefits which the borrower derives from the loan and his potential access to future loans (Forster et al, 2003).

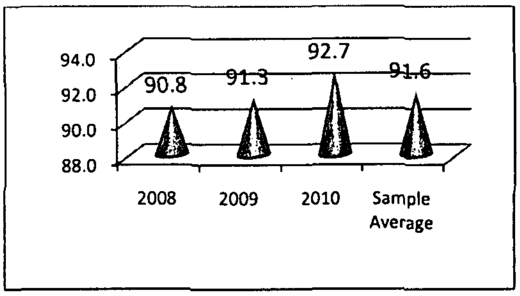
Microfinance institutions now reach well over 100 million clients and achieve impressive repayment rates on loans (Cull et al., 2009). The rapid growth of microfinance has brought increasing calls for regulation, but complying with prudential regulations and the associated supervision can be especially costly for microfinance institutions. Moreover, competition may have an adverse effect on the repayment performance of MFI borrowers, if they take up multiple loans from different financial institutions. Reduced repayment rates leads to decreased financial performance and has adverse consequences for the efficiency of MFIs (McIntosh et al., 2005a and 2005b).

In the absence of National benchmark for the repayment rate (RR), the individual RR performances of the sample MFIs were calculated and a sample average RR was found for the 34 MFIs. The sample data reported that the average RR of the sample MFIs of Assam over the last three years was 91.59 with a standard deviation of 10.14. The average RRs of the sample MFIs for the three financial years 2007-2008, 2008-2009, and 2009-2010 were found to be 90.78, 91.27, and 92.71 respectively. Thus we see that the average repayment rates of the sample MFIs have increased from 2007-08 to 2009-10.

Table 4.36: Descriptive Statistics of RR Averages

Descriptive Statistics	RR (2008)	RR (2009)	RR (2010)	RR (Sample Average)
Mean	90.78	91.27	92.71	**91.59**
Standard Deviation	11.31	10.22	9.20	10.14
N	34	34	34	34

Figure 4.16: RR Averages



Past micro-lending experiences in different social agencies worldwide suggest that poor people are more prompt in repaying debts e.g., the repayment rate for Grameen Bank is around 98%. Despite the removal of collateral and credit history as a loan prerequisite, MFIs have shown to have an extremely small loan default rate comparable to or even lower than their commercial counterparts. Various research papers report a repayment rate over 95% for MFIs (Morduch, 2000; Gutiérrez-Nieto & Serrano-Cinca, 2006; Thapa, 2009; Waweru & Spraakman, 2009). The study finds that the average repayment rate of the sample MFIs of Assam is only 91.59% and it has been increasing from 90.78% in 2008 to 92.71% in 2010. This increase is a good sign for the sample MFIs of Assam but, presently it is lower than the benchmark repayment rate of 95% as referred by some researchers for the microfinance industry.

Therefore, regarding the sustainability of the selected MFIs of Assam, it has been observed that the sample MFIs are having higher operating self sufficiency (OSS) compared to the corresponding OSS National benchmark. The financial self sufficiency (FSS) of the sample MFIs are found to be at par the National benchmark.

4.5. Efficiency of the MFIs of Assam

The efficiency of the MFIs of Assam were measured by seven ratios viz., (i) Operating Expense Ratio (OER), (ii) Cost per Borrower (CPB), (iii) Average Salary to GNI per Capita (ASGP), (iv) Operating Expense to Total Assets (OETA), (v) Administrative Expenses to Total Assets (AETA), (vi) Personnel Expenses to Loan Portfolio (PELP), and (vii) Client Turnover (CT).

4.5.1. Operating Expense Ratio (OER): This ratio is calculated by dividing all expenses related to the operation of an institution (including all the administrative and salary expenses, depreciation and board fees) by the period average gross portfolio. Interest and provision expenses, as well as extraordinary expenses are not included. This ratio provides the best indicator of the overall efficiency of a lending institution. For this reason, the ratio is also commonly referred to as the efficiency ratio. It measures the institutional cost of delivering loan services. The lower the operating expense ratio, the higher the efficiency of an institution.

The operating expense ratio enables managers to compare quickly administrative and personnel expenses to the MFI's yield on the gross loan portfolio.

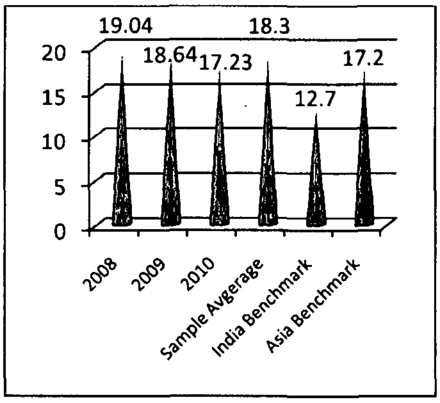
The average OER benchmarks for India and Asia for the year 2008 was 12.7% and 17.2% respectively. The following are the null and alternative hypothesis tested for the sample average OER performance of the sample MFIs.

H_0: OER (Sample Average) = 12.7 and, H_1: OER (Sample Average) > 12.7

Table 4.37: Descriptive Statistics & t-Test of OER Averages

Descriptive Statistics & t-Test Results	OER (2008)	OER (2009)	OER (2010)	OER (Sample Average)
Mean	19.04	18.64	17.23	**18.30**
Standard Deviation	21.05	24.09	24.56	21.45
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	11.70	10.23	8.66	10.82
95% Confidence Interval - Upper	26.39	27.04	25.80	25.79
t (One Sample Test, Test Value = 12.7)	1.76	1.44	1.08	1.52
P Value (One-tailed)	0.04	0.08	0.15	0.07

Figure 4.17: OER Averages



The sample data reported that the average OER of the MFIs of Assam over the last three years was 18.30 with a standard deviation of 21.45. As the p value of the one-tailed t test of the average OER (0.07) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average OER performance of the sample MFIs of Assam was similar to the National OER benchmark and this result was found to be statistically significant at 5% level of significance.

Only those individual MFI's average OER among the sample MFIs were considered to be exceptionally high and low if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average OERs & low average OERs are shown in Table 4.38 and 4.39 respectively.

Table 4.38: MFIs with High OER

MFI Name	High OER (Avg.)	Scale
BJS	113.48	Small
GM	63.20	Small
AGUP	41.23	Medium
DPYS	41.14	Small
JPYS	32.63	Medium
AGUS	29.01	Medium
MACC	28.70	Big
LSS	25.33	Medium
RGVN	21.50	Big
SSUS	16.12	Big
CRD	15.99	Big
RMI	15.91	Medium
MANDAL	14.46	Medium
AD	13.52	Small

Table 4.39: MFIs with Low OER

MFI Name	Low OER (Avg.)	Scale
PRDS	10.78	Medium
GVM	9.55	Medium
ASC	9.47	Big
RENEISSANCE	8.83	Medium
NCS	8.66	Big
GS	8.21	Big
WDS	7.85	Medium
ROAD	7.82	Medium
ASOMI	7.75	Big
RGVN NEM	7.54	Big
GSEDC	6.82	Medium
DASK	5.84	Small
PANCHARATNA	4.64	Medium
MZGPS	4.12	Big
AAMIVA	2.86	Small
SATRA	2.86	Big
DC	1.03	Big

4.5.2. Cost per Borrower (CPB): Cost per Borrower is calculated by dividing all expenses related to the operation of the institution (including all the administrative and salary expenses, depreciation and board fees) by the average number of active borrowers. Interest and provision expenses, as well as extraordinary expenses, are not included. This ratio provides a meaningful measure of efficiency by showing the average cost of maintaining an active borrower. Since the size of the loans is not part of the denominator, institutions with larger loans do not automatically appear more efficient, as is the case with the operating expense ratio. The cost per borrower ratio is in this sense a "fairer" indicator than the operating expense ratio. Indeed, the operating expense ratio and the cost per borrower move in opposite directions. This is most pronounced when average loans are very small. In those cases, the operating expense ratio invariably rises fast, whereas the cost per borrower drops equally quickly.

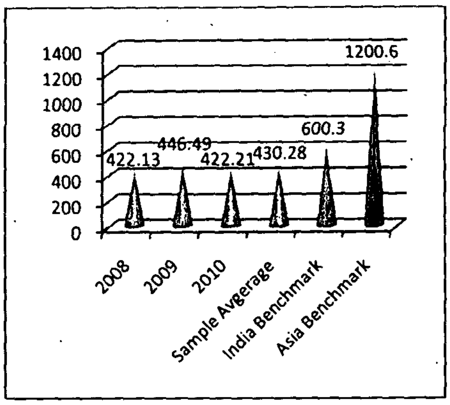
The average CPB benchmarks for India and Asia for the year 2008 were Rs.600.30 and Rs.1200.60 respectively. The following are the null and alternative hypothesis tested for the sample average CPB performances of the sample MFIs.

H_0: CPB (Sample Average) = Rs.600.30 and, H_1: CPB (Sample Average)< Rs.600.30

Table 4.40: Descriptive Statistics & t-Test of CPB Averages

Descriptive Statistics & t-Test Results	CPB (2008)	CPB (2009)	CPB (2010)	CPB (Sample Average)
Mean	422.13	446.49	422.21	**430.28**
Standard Deviation	*426.10*	*374.63*	*422.15*	334.33
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	273.45	315.78	274.92	313.62
95% Confidence Interval - Upper	570.80	577.21	569.51	546.93
t (One Sample Test, Test Value=Rs.600.3)	-2.44	-2.39	-2.46	-2.97
P Value (One-tailed)	0.01	0.01	0.01	0.00

Figure 4.18: CPB Averages



The sample data revealed that the average CPB of the sample MFIs of Assam over the last three years was Rs.430.28 with a standard deviation of 334.33. As the p values of the one-tailed t test for the average CPB was less than 0.05, so the null hypothesis was rejected. Therefore, it may be concluded that the average CPB performance of the sample MFIs of Assam was lower compared to the National CPB of Rs.600.30 and Asian CPB of Rs.1200.60 and this result was found to be statistically significant at 5% level of significance.

Only those individual averages CPB of the MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average CPBs & low average CPBs are shown below.

Table 4.41: MFIs with High CPB

MFI Name	High CPB (Avg.)	Scale
AGUS	1197.14	Medium
GSEDC	1190.50	Medium
LSS	1155.12	Medium
PRDS	951.56	Medium
SSUS	908.54	Big
AD	728.64	Small
RENEISSANCE	717.86	Medium
WDS	699.59	Medium

Table 4.42: MFIs with Low CPB

MFI Name	Low CPB (Avg.)	Scale
MANDAL	310.46	Medium
JPYS	241.48	Medium
AAMIVA	213.14	Small
DPYS	183.95	Small
AGUP	180.66	Medium
RGVN	168.84	Big
PANCHARATNA	153.85	Medium
GVM	147.07	Medium
DASK	145.31	Small
MZGPS	104.61	Big
SATRA	73.32	Big
DC	59.90	Big
BJS	54.51	Small
CRD	37.00	Big

4.5.3. Average Salary to GNI per Capita (ASGP): This ratio is used to measure the efficiency of the MFIs in terms of the average salary of the employees as a percentage of the Gross National Income per capita of that Nation. If this ratio approaches towards one, this would indicate that an MFI has the capacity to pay their employees almost at par with respect to the GNI per capita of that country.

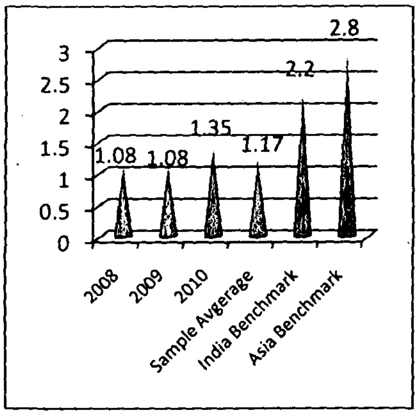
The average salary to GNI per capita benchmarks for India and Asia for the year 2008 was 2.20 and 2.80 respectively. The following are the null and alternative hypothesis tested for the sample average ASGP performances of the sample MFIs.

H_0: ASGP (Sample Average) = 2.20 and, H_1: ASGP (Sample Average) < 2.20

Table 4.43: Descriptive Statistics & t-Test of ASGP Averages

Descriptive Statistics & t-Test Results	ASGP (2008)	ASGP (2009)	ASGP (2010)	ASGP (Sample Average)
Mean	1.08	1.08	1.35	1.17
Standard Deviation	1.07	0.53	0.55	0.62
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	0.70	0.89	1.16	0.95
95% Confidence Interval - Upper	1.45	1.26	1.55	1.39
t (One-Sample Test, Test Value = 2.20)	-6.08	-12.33	-8.89	-9.71
P Value (One-tailed)	0.00	0.00	0.00	0.00

Figure 4.19: ASGP Averages



The sample data revealed that the average ASGP of the sample MFIs of Assam over the last three years was 1.17 with a standard deviation of 0.62. As the p values of the one-tailed t test for the average ASGP was less than 0.05, so the null hypothesis was rejected. Therefore, it may be concluded that the average ASGP performance of the sample MFIs of Assam was lower compared to the National ASGP of 2.20 and this result was found to be statistically significant at 5% level of significance.

Only those individual MFI's averages ASGP of the MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively.

The MFIs having individually high ASGPs & low average ASGPs are shown in Table 4.44 and Table 4.45 respectively.

Table 4.44: MFIs with High ASGP

MFI Name	High ASGP (Avg.)	Scale
MANDAL	3.11	Medium
RGVN	2.80	Big
NCS	1.97	Big
PANCHARATNA	1.79	Medium
MZGPS	1.77	Big
ASOMI	1.67	Big
PROCHESTA	1.60	Big
RGVN NEM.	1.59	Big
SSUS	1.59	Big

Table 4.45: MFIs with Low ASGP

MFI Name	Low ASGP (Avg.)	Scale
WDS	0.85	Medium
LSS	0.85	Medium
RENEISSANCE	0.85	Medium
MASK	0.82	Medium
PRDS	0.80	Medium
DASK	0.68	Small
CRD	0.64	Big
RMI	0.64	Medium
GSEDC	0.60	Medium
DPYS	0.48	Small
ROAD	0.47	Medium
MACC	0.43	Big
AGUS	0.38	Medium

4.5.4. Operating Expense to Total Assets (OETA): Operating expenses are the most important cost component of MFIs. This ratio measures the efficiency of the MFIs in terms of their operating expenses as a percentage to the total assets. An MFI is usually considered to be more efficient when it lowers this indicator. Operating expenses includes personnel expense (staff salaries, bonuses, benefits, and employment taxes) and administrative expense (non-financial expenses directly related to the provision of financial services or other services that form an integral part of an MFI's financial services relationship with its clients like depreciation, rent, utilities, supplies, advertising, transportation, communications, and consulting fees. It does not include taxes on employees, revenues, or profits, but may include taxes on transactions and purchases, such as value-added taxes), but excludes financial expense and loan-loss provision expense. It does not include expense linked to non-financial services.

One big question for the future of the microfinance sector is how low operating costs can go before they level off. In profitable MFIs, operating costs account for roughly half of interest yields and thereby they represent the biggest cost block. Whether there is much potential for reduction of operating costs remains to be seen (Rosenberg, 2009).

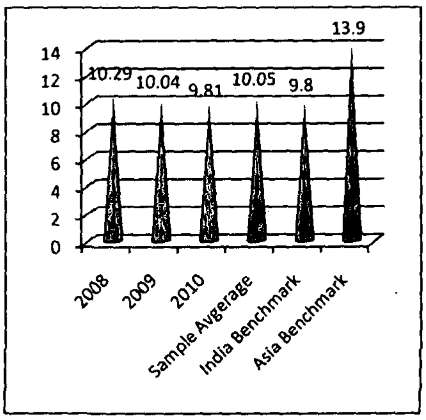
The average OETA benchmarks for India and Asia for the year 2008 were 9.80% and 13.90% respectively. The following are the null and alternative hypothesis tested for the sample average OETA performances of the sample MFIs.

H_0: OETA (Sample Average) = 9.80 and, H_1: OETA (Sample Average) > 9.80

Table 4.46: Descriptive Statistics & t-Test of OETA Averages

Descriptive Statistics & t-Test Results	OETA (2008)	OETA (2009)	OETA (2010)	OETA (Sample Average)
Mean	10.29	10.04	9.81	**10.05**
Std. Deviation	12.55	10.87	11.14	10.97
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	5.92	6.25	5.92	6.22
95% Confidence Interval - Upper	14.67	13.84	13.69	13.88
t (One-Sample Test, Test Value = 9.80)	0.23	0.13	0.00	0.13
P Value (One-tailed)	*0.41*	*0.45*	*0.50*	*0.45*

Figure 4.20: OETA Averages



The sample data reported that the average OETA of the MFIs of Assam over the last three years was 10.05 with a standard deviation of 10.97. As the p values of the one-tailed t test of the average OETA (0.45) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average OETA performance of the sample MFIs of Assam was similar to the National OETA benchmark and this result is found to be statistically significant at 5% level of significance.

Table 4.47: MFIs with High OETA Averages

MFI Name	High OETA (Avg.)	Scale
DPYS	54.56	Small
GM	37.77	Small
BJS	35.06	Small
ROAD	14.52	Medium
SSUS	14.40	Big

Table 4.48: MFIs with Low OETA Averages

MFI Name	Low OETA (Avg.)	Scale
RENEISSANCE	6.09	Medium
NCS	6.03	Big
RGVN NEM	6.02	Big
PROCHESTA	5.82	Big
AGUS	5.67	Medium
JPYS	5.65	Medium
GVM	5.48	Medium
ASOMI	5.37	Big
PANCHARATNA	4.15	Medium
AAMIVA	3.58	Small
MZGPS	3.34	Big
SATRA	2.46	Big
DASK	1.74	Small
DC	0.73	Big

Only those individual MFI's average OETAs among the sample MFIs were considered to be exceptionally high and low if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average OETAs and low average OETAs are shown in Table 4.47 and Table 4.48.

4.5.5. Administrative Expenses to Total Assets (AETA): This ratio measures the efficiency of the MFIs in terms of their administrative expenses as a percentage of their total assets. Moreover, the administrative expense also depends on the scale of the MFIs and volume of their financial transactions. Administrative costs may be much higher in young MFIs that are too small to take advantage of economies of scale. An MFI is usually considered to be more efficient when it can bring down this indicator.

Administrative expenses are those non-financial expenses directly related to the provision of financial services or other services that form an integral part of MFIs' financial service relationship with their clients. Examples include depreciation, rent, utilities, supplies, advertising, transportation, communications, and consulting fees. It does not include taxes on employees, revenues, or profits, but may include taxes on transactions and purchases, such as value-added taxes.

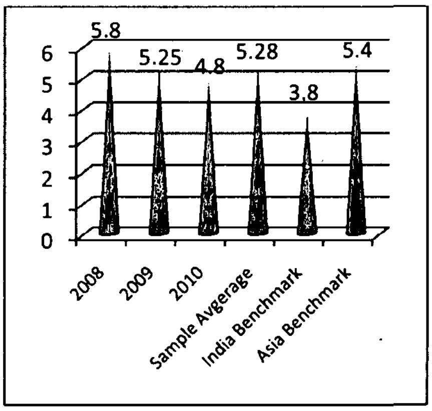
The average AETA benchmarks for India and Asia for the year 2008 were 3.80% and 5.40% respectively. The following are the null and alternative hypothesis tested for the sample average AETA performances of the sample MFIs.

H_0: AETA (Sample Average) = 3.80 and, H_1: AETA (Sample Average) > 3.80

Table 4.49: Descriptive Statistics & t-Test of AETA Averages

Descriptive Statistics & t-Test Results	AETA (2008)	AETA (2009)	AETA (2010)	AETA (Sample Average)
Mean	5.80	5.25	4.80	**5.28**
Standard Deviation	7.24	7.00	6.29	6.35
N	34	34	34	34
Df	33	33	33	33
95% Confidence Interval - Lower	3.27	2.81	2.61	3.07
95% Confidence Interval - Upper	8.32	7.70	6.99	7.50
t (One-Sample Test, Test Value = 3.80)	1.61	1.21	0.93	1.36
P Value (One-tailed)	0.06	0.12	0.18	0.09

Figure 4.21: AETA Averages



The sample data reported that the average AETA of the MFIs of Assam over the last three years was 5.28 with a standard deviation of 6.35. As the p values of the one-tailed t test of the average AETA (0.09) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average AETA performance of the sample MFIs of Assam was similar to that of the National AETA benchmark and this result was found to be statistically significant at 5% level of significance.

Only those individual MFI's average AETAs among the sample MFIs were considered to be exceptionally high and low if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average AETAs and low average AETAs are shown below.

Table 4.50: MFIs with High AETA

MFI Name	High AETA (Avg.)	Scale
GM	24.53	Small
BJS	24.25	Small
AAMIVA	18.43	Small
DPYS	18.19	Small
LSS	8.37	Medium

Table 4.51: MFIs with Low AETA

MFI Name	Low AETA (Avg.)	Scale
AGUP	2.92	Medium
NCS	2.68	Big
GSEDC	2.56	Medium
ASC	2.48	Big
GVM	2.45	Medium
WDS	2.07	Medium
RGVN NEM	2.06	Big
RGVN	1.77	Big
MANDAL	1.63	Medium
SATRA	1.60	Big
ASOMI	1.37	Big
PANCHARATNA	0.88	Medium
JPYS	0.79	Medium
MZGPS	0.64	Big
DC	0.36	Big
DASK	0.16	Small

4.5.6. Personnel Expenses to Loan Portfolio (PELP): This ratio measures the efficiency of the MFIs in terms of their expenses as a percentage of their loan portfolio. Personnel expense includes staff salaries, bonuses, and benefits, as well as employment taxes incurred by an MFI. It may also include the costs of recruitment and/or initial orientation. It does not include ongoing or specialized training for existing employees, which is an administrative expense. On the other hand, gross loan portfolio means the outstanding principal balance of all of an MFI's outstanding loans, including current, delinquent, and restructured loans, but not loans that have been written off. It does not include interest receivable. Although some regulated MFIs may be required to include the balance of interest accrued and receivable, the MFI should provide a note that gives a breakdown between the sum of all principal payments outstanding and the sum of all interest accrued. An MFI is usually considered to be more efficient when it can bring down this indicator.

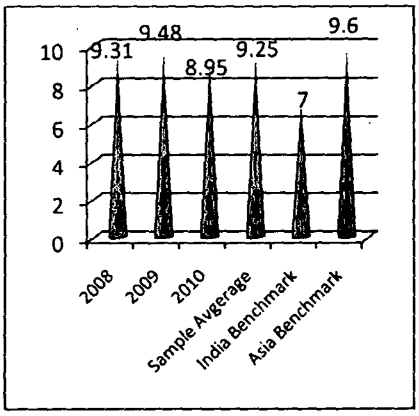
The average PELP benchmarks for India and Asia for the year 2008 were 7% and 9.6% respectively. The following are the null and alternative hypothesis tested for the sample average AETA performances of the sample MFIs.

H_0: PELP (Sample Average) = 7 and, H_1: PELP (Sample Average) > 7

Table 4.52: Descriptive Statistics & t-Test of PELP Averages

Descriptive Statistics & t-Test Results	PELP (2008)	PELP (2009)	PELP (2010)	PELP (Sample Average)
Mean	9.31	9.48	8.95	**9.25**
Standard Deviation	8.88	9.76	9.55	8.30
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	6.21	6.08	5.62	6.35
95% Confidence Interval - Upper	12.41	12.89	12.28	12.14
t (One-Sample Test, Test Value = 7)	1.52	1.48	1.19	1.58
P Value (One-tailed)	0.07	0.07	0.12	0.06

Figure 4.22: PELP Averages



The sample data reported that the average PELP of the MFIs of Assam over the last three years was 9.25. As the p values of the one-tailed t test of the average PELP (0.06) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average PELP performance of the sample MFIs of Assam was similar to that of the National PELP benchmark and this result was found to be statistically significant at 5% level of significance.

The MFIs having individually high average PELPs and low average PELPs are shown IN Table 4.53 and Table 4.54 respectively.

Table 4.53: MFIs with High PELP

MFI Name	High PELP (Avg.)	Scale
BJS	34.20	Small
JPYS	28.22	Medium
DPYS	27.43	Small
AGUP	24.99	Medium
GM	19.20	Small
CRD	15.99	Big
RGVN	15.69	Big

Table 4.54: MFIs with Low PELP

MFI Name	Low PELP (Avg.)	Scale
RMI	6.19	Medium
ASOMI	5.94	Big
AD	5.90	Small
WDS	5.72	Medium
PROCHESTA	5.60	Big
LSS	5.58	Medium
SDC	5.50	Big
ROAD	5.13	Medium
GVM	5.13	Medium
DASK	5.11	Small
RGVN NEM	4.98	Big
MASK	4.85	Medium
NCS	4.80	Big
GSEDC	4.15	Medium
GS	4.10	Big
PANCHARATNA	3.63	Medium
MZGPS	3.33	Big
RENEISSANCE	2.72	Medium
SATRA	1.01	Big
DC	0.52	Big

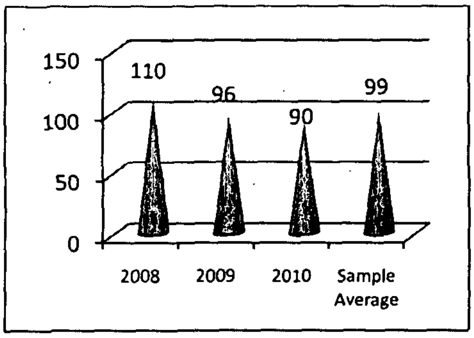
4.5.7. Client Turnover (CT): This ratio measures the net number of clients continuing to access services during the period and also used as one measurement of client satisfaction. The client turnover ratio is frequently used by managers to determine the level of client satisfaction with the MFI's products and services. The generally accepted tenet is that the cost of retaining clients is significantly lower than the cost of getting new clients. Therefore, measuring client turnover is a valuable management tool to understand the level of clients associated with MFIs during a particular period of time.

In the absence of National benchmark for the client turnover ratio (CT), the individual performances of the sample MFIs were calculated and a sample average CT was found for the 34 MFIs. The sample data reported that the average client turnover ratio of the sample MFIs of Assam over the last three years was 98.82 with a standard deviation of 43.35. The average client turnover ratios of the sample MFIs for the three financial years 2007-2008, 2008-2009, and 2009-2010 were found to be 110.03, 69.27, and 98.82 respectively. Thus we see that the average client turnover of the sample MFIs have decreased from 2007-08 to 2009-10.

Table 4.55: Descriptive Statistics of CT Averages

Descriptive Statistics	CT (2008)	CT (2009)	CT (2010)	CT (Sample Average)
Mean	110.03	96.27	90.16	**98.82**
Standard	51.08	46.10	50.83	43.35
N	34	34	34	34

Figure 4.23: CT Averages



According to Gudz (1999), offering saving services would help to reduce client turnover of the microfinance institutions. Gudz also reported that a client turnover rate exceeding 30 percent per annum is common and presents a huge cost to microfinance institutions because bringing in clients is laborious. Barres et al., (2005) reported that as MFIs mature and add products, client turnover is more difficult to measure and less meaningful as determining the active status of clients who use occasionally use non-credit services, such as remittance services, is difficult. Barres et al., (2005) mentioned that client turnover ratio may also be lower for MFIs that take deposits and have multiple small deposit accounts.

Therefore, regarding the efficiency of the selected MFIs of Assam, it has been observed that the performances in terms of operating expense ratio (OER), operating expense to total assets (OETA), administrative expense to total assets (AETA) and personnel expense to loan portfolio (PELP) of the sample MFIs are found to be at par with the National benchmark. The cost per borrower (CPB) of the sample MFIs are lower than the National benchmark which is a favorable performance indicator, but the average salary to GNI per capita is found to be lower compared to the National benchmark which may not be a healthy performance indicator for the sample MFIs of Assam.

4.6. Productivity of the MFIs of Assam

The productivity of the MFIs of Assam was measured by seven ratios viz., (i) Borrowers per Staff (BPS), (ii) Borrowers per Loan Officer (BPLO), (iii) Average

Disbursed Loan Size (ADLS), (iv) Personnel Allocation Ratio (PALR), (v) Average Outstanding Loan Size (AOLS), (vi) Loans per Staff Members (LPSM), (vii) Loans per Loan Officer (LPLO).

4.6.1. Borrowers per Staff (BPS): This ratio is calculated by dividing the number of active borrowers of MFIs by the total number of staff. The number of active borrowers is defined as individually identifiable borrowers who have at least one current outstanding loan with the institution. Thus, a solidarity loan with ten members is considered as ten borrowers as per the NABARD guidelines.

This ratio captures the productivity of the institution's staff – the higher the ratio, the more productive the institution is. Indirectly, the ratio says a fair amount about how well the MFI has adapted its processes and procedures to its business purpose of lending money. Low staff productivity doesn't usually mean that staff works less, but that they are tied up in excessive paperwork and procedures.

The average BPS benchmarks for India and Asia for the year 2008 were 251 and 132 respectively. The following are the null and alternative hypothesis tested for the sample average BPS performances of the sample MFIs.

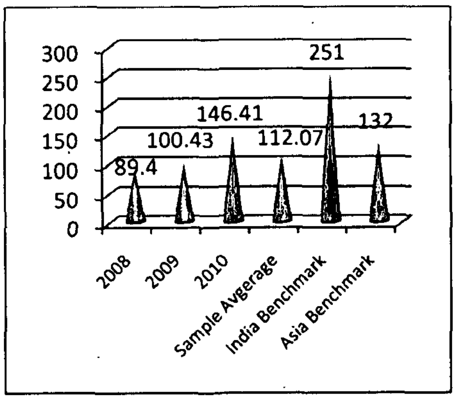
H_0: BPS (Sample Average) = 251 and, H_1: BPS (Sample Average) < 251

The sample data reported that the average BPS of the MFIs of Assam over the last three years was 112.07 with a standard deviation of 88.43. As the p value of the one-tailed t-test for the average BPS (0.00) was less than 0.05, so the null hypothesis was rejected.

Table 4.56: Descriptive Statistics & t-Test of BPS Averages

Descriptive Statistics & t-Test Results	BPS (2008)	BPS (2009)	BPS (2010)	BPS (Sample Average)
Mean	89.40	100.43	146.41	**112.07**
Std. Deviation	77.02	83.53	138.15	88.43
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	62.53	71.28	98.21	81.22
95% Confidence Interval - Upper	116.28	129.57	194.61	142.93
t (One-Sample Test, Test Value = 251)	-12.23	-10.51	-4.41	-9.16
P Value (One-tailed)	0.00	0.00	0.00	0.00

Figure 4.24: BPS Averages



Therefore, it may be concluded that the average BPS performance of the sample MFIs of Assam was lower compared to the National BPS benchmark of 251 and this result was found to be statistically significant at 5% level of significance.

Table 4.57: MFIs with High BPS

MFI Name	High BPS (Avg.)	Scale
RGVN	1969	Big
BJS	290	Small
SATRA	262	Big
AGUP	257	Medium
MZGPS	256	Big
AGUS	236	Medium
NCS	234	Big
RGVN NEM	221	Big
ASOMI	198	Big
SDC	196	Big
PANCHARATNA	194	Medium
ASC	146	Big

Table 4.58: MFIs with Low BPS

MFI Name	Low BPS (Avg.)	Scale
SSUS	65	Big
PROCHESTA	63	Big
GM	59	Small
CRD	55	Big
RENEISSANCE	47	Medium
ROAD	44	Medium
WDS	43	Medium
JPYS	34	Medium
GSEDC	33	Medium
PRDS	20	Medium
AAMIVA	18	Small
DASK	16	Small
MACC	16	Big
AD	6	Small

Only those individual MFI's average BPS of the sample MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average BPSs and low average BPSs are given in Table 4.57 & Table 4.58 respectively.

4.6.2. Borrowers per Loan Officer (BPLO): This ratio is calculated by dividing the number of active borrowers of an institution by the total number of loan officers. Active borrowers are defined the same way as in the personnel productivity ratio. Loan officers are defined as personnel whose main activity is direct management of a portion of the loan portfolio. It includes field personnel or line officers that interact with the client, but not administrative staff or analysts who process loans without direct client contact.

This ratio captures the productivity of the institution's loan officers – the higher the ratio, the more productive the institution is. It is one of the most recognized performance ratios in the microfinance industry. The top performers in terms of loan officer efficiency also demonstrate that extremely high client loads are compatible with high portfolio quality. This ratio depends on the local environment, such as population density and ease of access to clients. It can also vary drastically due to product terms and conditions (for example, individual versus group loans) and methodology (frequency of meetings).

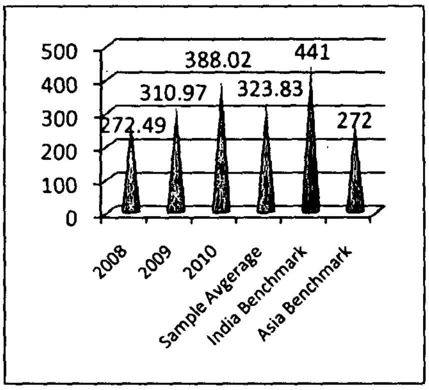
The average BPLO benchmarks for India and Asia for the year 2008 were 441 and 272 respectively. The following are the null and alternative hypothesis tested for the sample average BPLO performance of the sample MFIs.

H_0: BPLO (Sample Average) = 441 and, H_1: BPLO (Sample Average) < 441

Table 4.59: Descriptive Statistics & t-Test of BPLO Averages

Descriptive Statistics & t-Test Results	BPLO (2008)	BPLO (2009)	BPLO (2010)	BPLO (Sample Average)
Mean	272.49	310.97	388.02	**323.83**
Std. Deviation	427.59	523.50	600.65	505.19
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	123.29	128.31	178.44	147.56
95% Confidence Interval - Upper	421.68	493.62	597.60	500.09
t (One-Sample Test, Test Value = 441)	-2.30	-1.45	-0.51	-1.35
P Value (One-tailed)	0.01	0.08	0.31	0.09

Figure 4.25: BPLO Averages



The sample data reported that the average BPLO of the MFIs of Assam over the last three years was approximately 324 with a standard deviation of 505.19. As the p value of the one-tailed t test for the average BPLO (0.09) was greater than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average BPLO performance of the sample MFIs of Assam was similar to the National BPLO benchmark of 441 and this result was found to be statistically significant at 5% level of significance.

Only those individual MFI's average BPLOs of the sample MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average BPLOs and low average BPLOs are shown in Table 4.60 and Table 4.61.

Table 4.60: MFIs with High BPLO

MFI Name	High BPLO (Avg.)	Scale
RGVN	2979.74	Big
DC	682.83	Big
SSUS	659.75	Big
AGUP	600.00	Medium
MZGPS	582.07	Big

Table 4.61: MFIs with BPLO

MFI Name	Low BPLO (Avg.)	Scale
WDS	143.17	Medium
GM	121.89	Small
RMI	119.56	Medium
JPYS	118.67	Medium
RENEISSANCE	94.33	Medium
DPYS	88.89	Small
LSS	83.11	Medium
PRDS	76.11	Medium
MACC	74.72	Big
PROCHESTA	62.54	Big
AAMIVA	46.33	Small
DASK	24.50	Small
AD	18.67	Small

4.6.3. Average Disbursed Loan Size (ADLS): This is calculated by dividing the value of loans disbursed during a financial year by total number of loans disbursed during the same period. In other words, it measures the average loan size that is disbursed to clients. Managers frequently track the average disbursed loan size because it drives profitability and indicates the increase in the demand for loans and clients' capacity to manage debt.

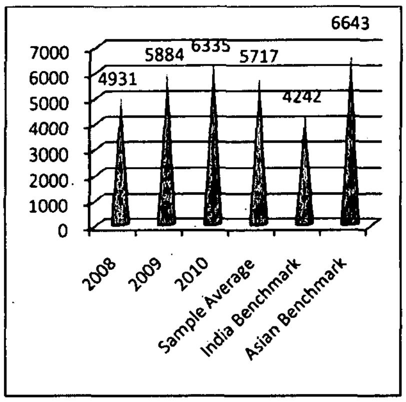
The average disbursed loan size benchmarks for India and Asia for the year 2008 were Rs. 4242.12 and Rs. 6643.32 respectively. The following are the null and alternative hypothesis tested for the sample average ADLS performance of the sample MFIs.

H_0: ADLS (Sample Average) = 4242.12 and, H_1: ADLS (Sample Average) > 4242.12

Table 4.62: Descriptive Statistics & t-Test of ADLS Averages

Descriptive Statistics & t-Test Results	ADLS (2008)	ADLS (2009)	ADLS (2010)	ADLS (Sample Averages)
Mean	4931.25	5883.84	6334.69	**5716.59**
Std. Deviation	4386.46	5067.99	6497.78	4947.17
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	3400.74	4115.53	4067.50	3990.44
95% Confidence Interval - Upper	6461.75	7652.14	8601.87	7442.74
t (One-Sample Test, Test Value= 4242.12)	0.92	1.89	1.88	1.74
P Value (One-tailed)	0.183	0.034	0.035	0.056

Figure 4.26: ADLS Averages



The sample data revealed that the average disbursed loan size of the sample MFIs of Assam over the last three years was Rs.5716.59 with a standard deviation of 4947.17. As the p value of the one-tailed t test for the average ADLS (0.056) was more than 0.05, so there was no sufficient statistical evidence to reject the null hypothesis. Therefore, it may be concluded that the average ADLS of the sample MFIs of Assam was similar to that of the National ADLS benchmark of Rs.4242.12 and this result was found to be statistically significant at 5% level of significance.

Only those individual MFI's average ADLSs of the sample MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average ADLSs and low average ADLSs are given below.

Table 4.63: MFIs with High ADLS

MFI Name	High ADLS (Avg.)	Scale
GSEDC	23516.02	Medium
AAMIVA	19858.88	Small
SDC	10011.71	Big
NCS	9835.01	Big
ASOMI	9279.80	Big
DC	8618.05	Big
GS	8608.35	Big
RGVN NEM	8604.33	Big
GVM	8044.56	Medium
ASC	7872.64	Big

Table 4.64: MFIs with Low ADLS

MFI Name	Low ADLS (Avg.)	Scale
SATRA	3460.95	Big
MANDAL	3425.04	Medium
CRD	2763.02	Big
PROCHESTA	2689.30	Big
BJS	2608.02	Small
MZGPS	2288.68	Big
SSUS	1697.50	Big
MASK	1653.92	Medium
AGUS	1539.13	Medium
MACC	1337.39	Big
JPYS	751.01	Medium
DPYS	652.86	Small
AGUP	457.19	Medium

4.6.4. Personnel Allocation Ratio (PALR): This ratio is calculated by dividing the number of loan officers by the number of total personnel of the MFI. In other words, it measures what percent of an MFI's employees is focused on the activity that guarantees most of the income for an MFI lending. High personnel allocation ratio indicates higher volume of microcredit operation in MFIs.

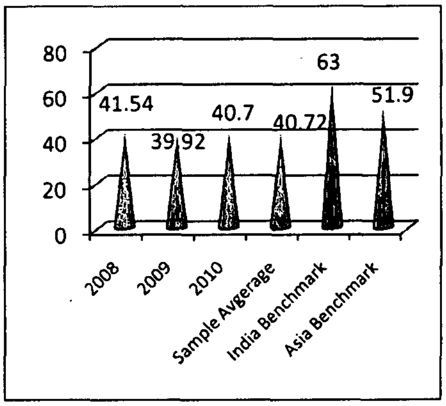
According to the MIX Market report of 2010, the personnel allocation ratio benchmarks for India and Asia for the year 2008 were 63% and 51.9% respectively. The following are the null and alternative hypothesis tested for the PALR performance of the sample MFIs.

H_0: PALR (Sample Average) = 63 and, H_1: PALR (Sample Average) < 63

Table 4.65: Descriptive Statistics & t-Test of PALR Averages

Descriptive Statistics & t-Test Results	PALR (2008)	PALR (2009)	PALR (20101)	PALR (Sample Average)
Mean	41.54	39.92	40.70	**40.72**
Std. Deviation	25.75	25.54	24.13	24.32
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	32.55	31.01	32.28	32.24
95% Confidence Interval - Upper	50.52	48.83	49.12	49.21
t (one-Sample Test, Test Value = 63)	-4.86	-5.27	-5.39	-5.34
P Value (One-	0.00	0.00	0.00	0.00

Figure 4.27: PALR Averages



The sample data revealed that the personnel allocation ratio of the sample MFIs of Assam over the last three years was 40.72% with a standard deviation of 24.32. As the p value of the one-tailed t-test for the average PALR (0.00) was less than 0.05, so the null hypothesis was rejected. Therefore, it may be concluded that the average PALR performance of the sample MFIs of Assam was lower compared to the National PALR benchmark of 63% and this result was found to be statistically significant at 5% level of significance.

Only those individual MFI's average PALRs of the sample MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average PALRs and low average PALRs are given below.

Table 4.66: MFIs with High PALR

MFI Name	High PALR (Avg.)	Scale
ASOMI	100.00	Big
PANCHARATNA	85.19	Medium
BJS	77.78	Small
RGVN NEM	75.53	Big
DPYS	75.00	Small
ASC	70.48	Big
RGVN	66.41	Big
SATRA	65.18	Big
GS	59.99	Big
SDC	55.56	Big

Table 4.67: MFIs with Low PALR

MFI Name	Low PALR (Avg.)	Scale
WDS	30.04	Medium
RENEISSANCE	29.33	Medium
GM	28.57	Small
LSS	25.47	Medium
GVM	24.07	Medium
ROAD	23.33	Medium
PRDS	19.95	Medium
AAMIVA	19.76	Small
JPYS	18.18	Medium
CRD	17.32	Big
DC	14.65	Big
PROCHESTA	12.66	Big
GSEDC	11.57	Medium
MACC	10.57	Big
SSUS	10.14	Big

4.6.5. Average Outstanding Loan Size (AOLS): It is frequently compared to per capita GDP as a rough proxy for the income level of an MFI's clientele. There is increasing evidence that average outstanding loan size is not an accurate proxy of the poverty level of clients. Yirsaw (2008) reports that although several factors other than the income level of the client contribute to smaller outstanding loan sizes, a correlation exist between this ratio and the average income level of the areas served. Sebstad (1998) provided guidelines for lower-cost impact assessment methodologies for microenterprise programs to CGAP and reported that larger average outstanding loan size has positive impact on the target client group.

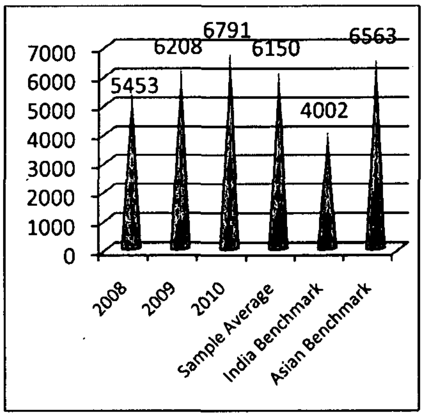
The average outstanding loan size benchmarks for India and Asia for the year 2008 were Rs. 4002 and Rs. 6563.28 respectively. The following are the null and alternative hypothesis tested for the sample average AOLS performance of the sample MFIs.

H_0: AOLS (Sample Average) = 4002 and, H_1: AOLS (Sample Average) > 4002

Table 4.68: Descriptive Statistics & t-Test of AOLS Averages

Descriptive Statistics & t-Test Results	AOLS (2008)	AOLS (2009)	AOLS (2010)	AOLS (Sample Average)
Mean	5452.56	6208.20	6790.65	**6150.47**
Std. Deviation	4777.81	5307.20	6240.84	4902.35
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	3785.50	4356.43	4613.12	4439.96
95% Confidence Interval - Upper	7119.62	8059.97	8968.18	7860.98
t (One-Sample Test, Test Value = 4002)	1.77	2.42	2.61	2.56
p Value (One-tailed)	0.04	0.01	0.01	0.01

Figure 4.28: AOLS Averages



As the p value of the one-tailed t test for the average AOLS (0.01) was less than 0.05, so the null hypothesis was rejected. Therefore, it may be concluded that the average AOLS of the sample MFIs of Assam was higher compared to the National AOLS benchmark of Rs. 4002 during 2008-2010 period and this result was found to be statistically significant at 5% level of significance.

Only those individual MFI's average AOLSs of the sample MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average AOLSs and low average AOLSs are given below.

Table 4.69: MFIs with High AOLS

MFI Name	High AOLS (Avg.)	Scale
AAMIVA	23704.25	Small
GSEDC	16707.03	Medium
SSUS	14809.81	Big
LSS	11552.16	Medium
AGUS	9957.30	Medium
PRDS	9849.07	Medium
WDS	9096.84	Medium

Table 4.70: MFIs with Low AOLS

MFI Name	Low AOLS (Avg.)	Scale
NCS	4287.07	Big
RMI	3557.04	Medium
PROCHESTA	3105.52	Big
CRD	2798.86	Big
RGVN	2655.78	Big
MANDAL	2627.94	Medium
SATRA	2623.38	Big
DPYS	2344.06	Small
MASK	2163.01	Medium
MACC	1438.96	Big
JPYS	906.74	Medium
AGUP	450.68	Medium
BJS	421.09	Small

4.6.6. Loans per Staff Members (LPSM): This ratio measures personnel productivity of the MFI which is calculated by dividing the number of active borrowers of an institution by the total number of staff. The number of active borrowers is defined as individually identifiable borrowers who have at least one current outstanding loan with the institution. Thus, a solidarity loan with ten members is considered as ten borrowers as per the NABARD guidelines. Multiple loans to the same borrower are considered as one borrower as for example, two simultaneous loans to the same borrower don't require twice the effort of one loan. Total staff is defined as the total number of people that work full time in an MFI. It includes contract staff such as consultants, as long as they work full time. If there are a significant number of part-time employees, then their number is adjusted to full-time equivalents. Two persons working half time then become equivalent to one full-time employee.

This ratio captures the productivity of the institution's staff – the higher the ratio the more productive the institution. Indirectly, the ratio says a fair amount about how well the MFI has adapted its processes and procedures to its business purpose of lending money. Low staff productivity doesn't usually mean that staff works less, but that they are tied up in excessive paperwork and procedures. Gonzalez (2008) shows that as MFIs grow beyond 2,000 customers, there are no significant further efficiency gains resulting from economies of scale, controlling for a range of other variables like lending technology, geographical location, etc. On average, most productivity gains therefore are realized during the very early growth phase of an institution. A vast majority of financially sustainable MFIs lie above this threshold of 2,000 borrowers. This might be one of the reasons why there has been little in the way of productivity gains, measured in terms of loans per staff member (Kneiding & Mas, 2009).

The loans per staff member benchmarks for India and Asia for the year 2008 were 249 and 133 respectively. The following are the null and alternative hypothesis tested for the sample average LPSM performances of the sample MFIs.

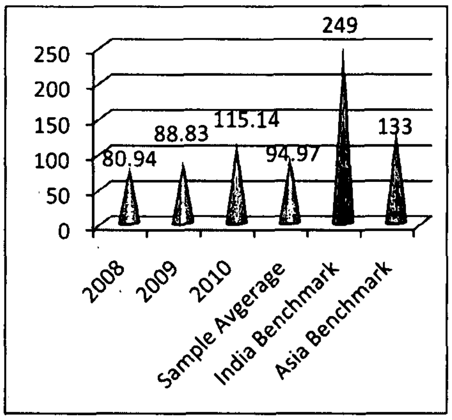
H_0: LPSM (Sample Average) = 249 and, H_1: LPSM (Sample Average) < 249

The sample data revealed that the loan per staff member of the sample MFIs of Assam over the last three years was approximately 95 with a standard deviation of 39.28.

Table 4.71: Descriptive Statistics & t-Test of LPSM Averages

Descriptive Statistics & t-Test Results	LPSM (2008)	LPSM (2009)	LPSM (2010)	LPSM (Sample Average)
Mean	80.94	88.83	115.14	**94.97**
Std. Deviation	107.13	120.29	148.68	122.85
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	43.56	46.85	63.27	52.10
95% Confidence Interval - Upper	118.32	130.80	167.02	137.83
t (One-Sample Test, Test Value = 249)	-9.15	-7.76	-5.25	-7.31
P Value (One-tailed)	0.00	0.00	0.00	0.00

Figure 4.29: LPSM Averages



As the p value of the one-tailed t test for the average LPSM (0.00) was less than 0.05, so the null hypothesis was rejected. Therefore, it may be concluded that the average LPSM of the sample MFIs of Assam was lower compared to the National LPSM benchmark and this result was found to be statistically significant at 5% level of significance.

Table 4.72: MFIs with High LPSM

MFI Name	High LPSM (Avg.)	Scale
RGVN	590.69	Big
BJS	275.37	Small
SATRA	262.27	Big
AGUP	255.00	Medium
NCS	229.18	Big
RGVN NEM	221.20	Big
SDC	195.65	Big
PANCHARATNA	154.94	Medium
ASC	148.47	Big
ASOMI	140.28	Big

Table 4.73: MFIs with Low LPSM

MFI Name	Low LPSM (Avg.)	Scale
CRD	47.37	Big
ROAD	41.46	Medium
WDS	40.23	Medium
DPYS	38.33	Small
RMI	34.80	Medium
GSEDC	30.43	Medium
RENEISSANCE	28.65	Medium
GVM	26.39	Medium
SSUS	25.65	Big
AGUS	24.33	Medium
DC	21.03	Big
JPYS	18.52	Medium
PRDS	15.28	Medium
LSS	11.13	Medium
PROCHESTA	7.33	Big
MACC	6.95	Big
AD	5.33	Small
GM	5.14	Small
DASK	4.83	Small
AAMIVA	2.96	Small

Only those individual MFI's average LPSMs of the sample MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average LPSMs and low average LPSMs are given in Table 4.72 and 4.73 respectively.

4.6.7. Loans per Loan Officer (LPLO): This ratio captures the productivity of the loan officer of MFIs which is calculated by dividing the number of active borrowers of an institution by the total number of loan officers. Active borrowers are defined the same way as in the personnel productivity ratio. Loan officers are defined as personnel whose main activity is direct management of a portion of the loan portfolio. It includes field personnel or line officers that interact with the client, but not administrative staff or analysts who process loans without direct client contact. Higher the ratio, the more productive the institution is. It is one of the most recognized performance ratios in the microfinance industry. Like the personnel productivity ratio, the loan officer productivity ratio says a fair amount about how well the MFI has adapted its processes and procedures to its business purpose of lending money.

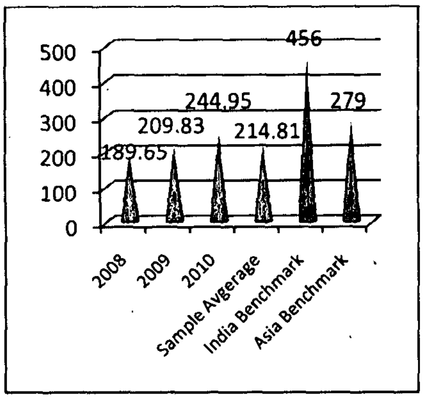
The loans per staff member benchmarks for India and Asia for the year 2008 were 456 and 279 respectively. The following are the null and alternative hypothesis tested for the sample average LPLO performances of the sample MFIs.

H_0: LPLO (Sample Average) = 456 and, H_1: LPLO (Sample Average) < 456

Table 4.74: Descriptive Statistics & t-Test of LPLO Averages

Descriptive Statistics & t-Test Results	LPLO (2008)	LPLO (2009)	LPLO (2010)	LPLO (Sample Average)
Mean	189.65	209.83	244.95	**214.81**
Standard Deviation	203.18	208.26	232.89	203.88
N	34	34	34	34
df	33	33	33	33
95% Confidence Interval - Lower	118.76	137.17	163.69	143.68
95% Confidence Interval - Upper	260.55	282.50	326.21	285.95
t (One-Sample Test, Test Value = 456)	-7.64	-6.89	-5.28	-6.90
P Value (One-tailed)	0.00	0.00	0.00	0.00

Figure 4.30: LPLO Averages



The sample data revealed that the loan per loan officer ratio of the sample MFIs of Assam over the last three years was approximately 215 with a standard deviation of 203.88. As the p value of the one-tailed t test for the average LPLO (0.00) was less than 0.05, so the null hypothesis was rejected. Therefore, it may be concluded that the average LPLO of the sample MFIs of Assam was lower compared to the National LPLO benchmark of 456 and this result was found to be statistically significant at 5% level of significance.

Table 4.75: MFIs with High LPLO

MFI Name	High LPLO (Avg.)	Scale
RGVN	893.92	Big
DC	682.83	Big
AGUP	595.00	Medium
NCS	496.97	Big
SATRA	420.19	Big
BJS	354.05	Small
SDC	346.86	Big
RGVN NEM.	292.84	Big

Table 4.76: MFIs with Low LPLO

MFI Name	Low LPLO (Avg.)	Scale
WDS	133.83	Medium
GVM	113.89	Medium
JPYS	101.83	Medium
RMI	94.17	Medium
RENEISSANCE	90.56	Medium
PRDS	73.89	Medium
AGUS	73.00	Medium
MACC	72.00	Big
PROCHESTA	56.78	Big
DPYS	51.11	Small
LSS	39.22	Medium
GM	17.06	Small
AD	16.00	Small
AAMIVA	14.67	Small
DASK	14.50	Small

Only those individual MFI's average LPLOs of the sample MFIs were considered to be exceptionally high and low among the sample MFIs if it fell beyond 95% upper and lower confidence interval respectively. The MFIs having individually high average LPLOs and low average LPLOs are given in Table 4.75 and Table 4.76 respectively.

Therefore, regarding the productivity of the selected MFIs of Assam, it has been observed that the performances in terms of BPLO and ADLS of the sample MFIs are found to be at par with their corresponding National benchmarks. The sample MFIs of Assam are found to perform better in terms of AOLS with respect to its National benchmark, but is not doing well in terms of BPS, PALR, LPSM and LPLO.

4.7. Chapter Summary

This chapter summarizes the financial performance of the MFIs of Assam by calculating 30 different ratios under six performance dimensions viz., profitability, risk, financial management, sustainability, efficiency and productivity. The performances of the MFIs of Assam are also compared to the National and Asian benchmark. MFIs having high and low scores (compared to the National benchmark) on the above 30 parameters are also identified.

For six ratios, National benchmarks were not available. So, the average performances of these ratios were calculated for 2007-08, 2008-09, and 2009-10 and a sample average was found which represents the performance of the sample MFIs in terms of PER (0.6006), CFR (20.45), FER (13.30), SDI (6.29), RR (91.59) and CT (98.82).

The summary of the financial performance of the sample MFIs of Assam is given in Table 4.89.

Table 4.77: Summary of Performance of MFIs with respect to National Benchmark

Performance Dimensions	Ratios	Results	Sample MFIs' Average Performances
Profitability	ROA	Higher	Favorable
	ROE	Higher	Favorable
	PY	At Par	Favorable
	PM	Higher	Favorable
Risk	PAR(30)	Higher	Unfavorable
	WOR	At Par	Favorable
	RCR	At Par	Favorable
Financial Management	DER	At Par	Favorable
	PTA	At Par	Favorable
Sustainability	OSS	Higher	Favorable
	FSS	At Par	Favorable
Efficiency	OER	At Par	Favorable
	CPB	Lower	Favorable
	ASGP	Lower	Unfavorable
	OETA	At Par	Favorable
	AETA	At Par	Favorable
	PELP	At Par	Favorable
Productivity	BPS	Lower	Unfavorable
	BPLO	At Par	Favorable
	ADLS	At Par	Favorable
	PALR	Lower	Unfavorable
	AOLS	Higher	Favorable
	LPSM	Lower	Unfavorable
	LPLO	Lower	Unfavorable

Chapter 5

Social Performance of MFIs

CHAPTER 5: SOCIAL PERFORMANCE OF MFIs

5.1. Introduction

Microfinance Institutions (MFIs) are special financial institutions. They have both a social nature and a for-profit nature. With the development of social audits, social ratings and reporting standards, social performance assessment has dramatically evolved during the past few years. Social performance is measured through the principles, the actions and the corrective measures implemented (Zeller, Lapenu & Greeley, 2003). Social performance measures how well an institution has translated its social goals into practice (Isern, Abrams, & Brown, 2007).

The social value of microfinance relates to the way financial services improve the lives of poor and excluded clients, and their families, and widen the range of opportunities for communities. Social performance as defined by Social Performance Task Force is – "The effective translation of an institution's social mission into practice in line with accepted social values such as serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI."

It has been observed from the literature review that research work on social performance started late and is limited as well. Lapneu and Zeller (2002) mentioned three proxies to measure the depth of the microfinance program - the feminine percentage in the borrowers, the average amount of the loan and the average amount of the deposits. As far as MFIs are concerned, the standard way of focusing into their social performance is through the measures of outreach in Yaron's framework. The social performance of an institution (whether a private-for-profit firm, cooperative or NGO) comprises the relations of the organization with its clients and with other stakeholders. Zeller, Lapenu and Greeley (2003) reported that the measurement of social performance involves investigating the structure of an organization (i.e. mission, ownership, management principles, relation to and care for its staff) and its conduct in the market and local and wider community (services, products, market behavior, other relations with clients and other stakeholders, including community and social/political organizations).

As already discussed in research methodology under chapter 3, the SPI tool is used for this study to evaluate the social performance of the MFIs of Assam. Let us now analyse the results of the social performance of the sample MFIs of Assam as per the SPI tool.

5.2. Overall Social Performance:

Social performance assessment has evolved in recent years and gradually it is becoming popular among the microfinance donors, regulators and practitioners, with the development of social audits, social ratings and reporting standards. In this study, the social performance of the MFIs of Assam was measured by the SPI (Social Performance Indicator) tool as developed by Manfred Zeller, Cécile Lapenu and Martin Greeley in 2003 (See Annexure III). Social performance as per the SPI tool, was measured by 15 indicators under four dimensions viz., (i) outreach to the poor & excluded - D_1, (ii) adaptation of the services and products to the target clients - D_2, (iii) improvement of social and political capital of the clients - D_3, and (iv) social responsibility of the institution - D_4.

Initially, the social performance of the sample MFIs is analysed at the macro level across four performance dimensions. In the next phase of analysis, the social performance of these MFIs is analysed at the micro level across 15 sub-dimensions. The following table summarizes the overall scores obtained by the 34 MFIs of Assam evaluated by the SPI method.

Table 5.1 highlights the overall social performance scores of the 34 sample MFIs of Assam along with the individual scores obtained under each of the four performance dimensions. The average social performance score of the sample MFIs' of Assam is found to be 49 out of 100 with maximum of 78 and minimum of 31. The overall sample data reveals that the average score of the sample MFIs for the first performance dimension, i.e., outreach to the poor and excluded is 17 out of 25. Therefore it may be concluded that the average social performance of the sample

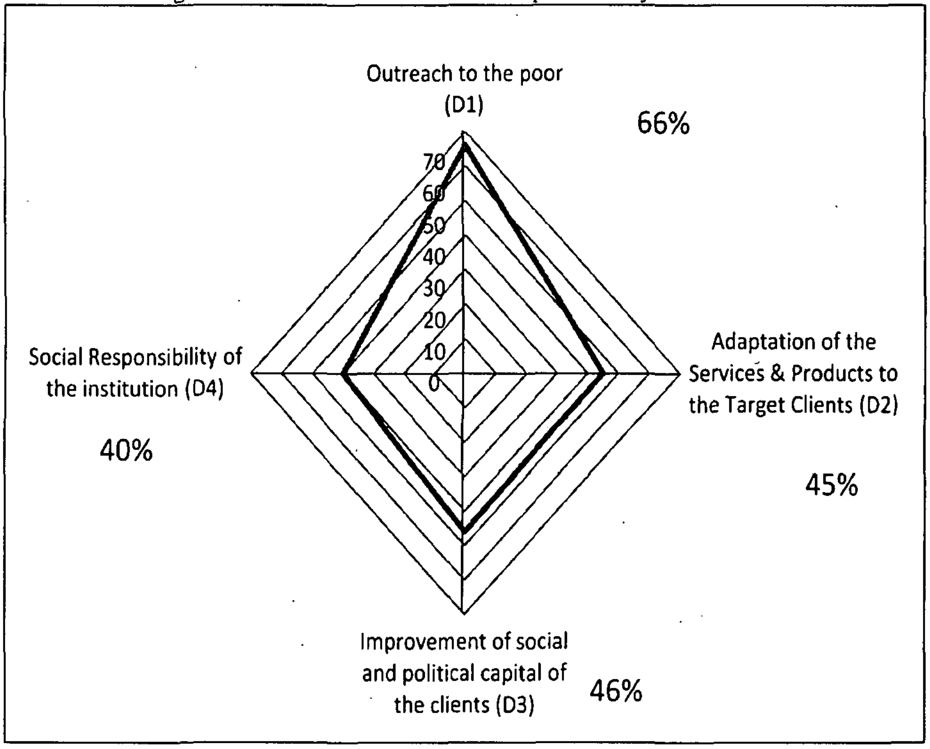
MFIs of Assam is higher in terms of outreach to the poor and excluded (66%) as compared to the other three dimensions viz., adaptation of the services and products to the target clients (45%), improvement of social and political capital of the clients (46%), and social responsibility of the institution (60%).

Table 5.1: Scores of Social Performance of the Sample MFIs

Rank	MFIs	Outreach to the poor (D1)	Adaptation of the Services & Products to the Target Clients (D2)	Improvement of social and political capital of the clients (D3)	Social Responsibility of the institution (D4)	TOTAL
1	SSUS	18	18	21	21	78
2	AGUP	19	16	16	12	63
2	GVM	19	14	19	11	63
3	MZGPS	17	12	16	15	60
4	SATRA	19	12	16	12	59
5	BJS	15	16	12	15	58
6	PANCHARATNA	16	13	15	12	56
7	ASOMI	16	12	12	14	54
7	CRD	17	14	11	12	54
7	RENAISSANCE	20	13	12	9	54
7	RMI	17	14	11	12	54
8	MASK	16	10	20	7	53
9	AD	15	11	19	7	52
10	RGVN NEM	16	16	8	11	51
10	AAMIVA	18	13	12	8	51
10	ASC	17	11	8	15	51
10	SDC	18	11	11	11	51
11	AGUS	20	11	11	7	49
11	MACC	15	15	10	9	49
12	RGVN	16	8	12	11	47
12	WDS	17	9	12	9	47
13	NCS	16	10	10	9	45
13	LSS	15	11	7	12	45
13	DASK	18	10	9	8	45
13	DC	16	11	11	7	45
14	GS	17	6	11	9	43
15	ROAD	13	9	11	9	42
16	PROCHESTA	11	11	9	10	41
17	GM	16	9	7	6	38
18	PRDS	13	9	8	7	37
19	JPYS	16	6	8	6	36
20	GSEDC	17	6	6	4	33
21	DPYS	18	5	4	5	32
22	MANDAL	15	7	4	5	31
	Average Score	17	11	12	10	49
	Dimension wise	66	45	46	40	
	Total Weights	0.25	0.25	0.25	0.25	100%

The following diagram shows the social performance scores of the MFIs of the sample MFIs of Assam under four dimensions viz., (i) outreach to the poor and excluded, (ii) adaptation of the services and products to the target clients, (iii) improvement of social and political capital of the clients, and (iv) social responsibility of the institutions.

Figure 5.1: Social Performance of Sample MFIs by Dimensions



The above diagram shows that the sample MFIs are more inclined towards the first dimension i.e., outreach to the poor and excluded compared to the other three performance dimensions. Thus it can be concluded that the social performance of the MFIs in terms of adaptation of the services and products to the target clients (Dimension-2), improvement of social and political capital of the clients (Dimension-3) and social responsibility of the institution (Dimension-4) need to be improved significantly as the SPI score of the sample MFIs under these three dimensions is very low.

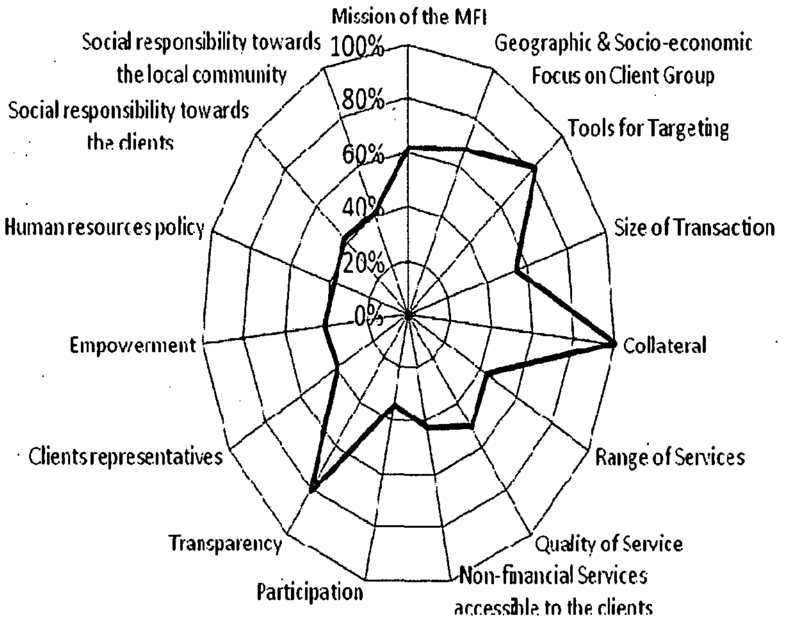
The following table shows the average scores obtained by the MFIs for the 15 sub-dimensions.

Table 5.2: Average Scores of the Sample MFIs by Sub-dimensions.

Sub-Dimensions of Social Performance	Average Scores	Total Scores	in Percent
Mission of the MFI	4.35	7.00	62%
Geographic & Socio-economic Focus on Client Group	6.74	10.00	67%
Tools for Targeting	0.82	1.00	82%
Size of Transaction	2.68	5.00	54%
Collateral	2.00	2.00	100%
Range of Services	4.74	11.00	43%
Quality of Service	4.06	8.00	51%
Non-financial Services accessible to the clients	1.74	4.00	43%
Participation	0.68	2.00	34%
Transparency	3.24	4.00	81%
Clients representatives	4.41	11.00	40%
Empowerment	4.06	10.00	41%
Human resources policy	3.41	9.00	38%
Social responsibility towards the clients	2.91	7.00	42%
Social responsibility towards the local community	3.71	9.00	41%

From the above table it is seen that three sub-dimensions viz., collateral, tools for targeting and transparency obtain more than 80% average scores. The graphical representation of the social performance of the Sample MFIs under each of these sub-dimensions is given below.

Figure 5.2: Social Performance of Sample MFIs by Sub-dimensions

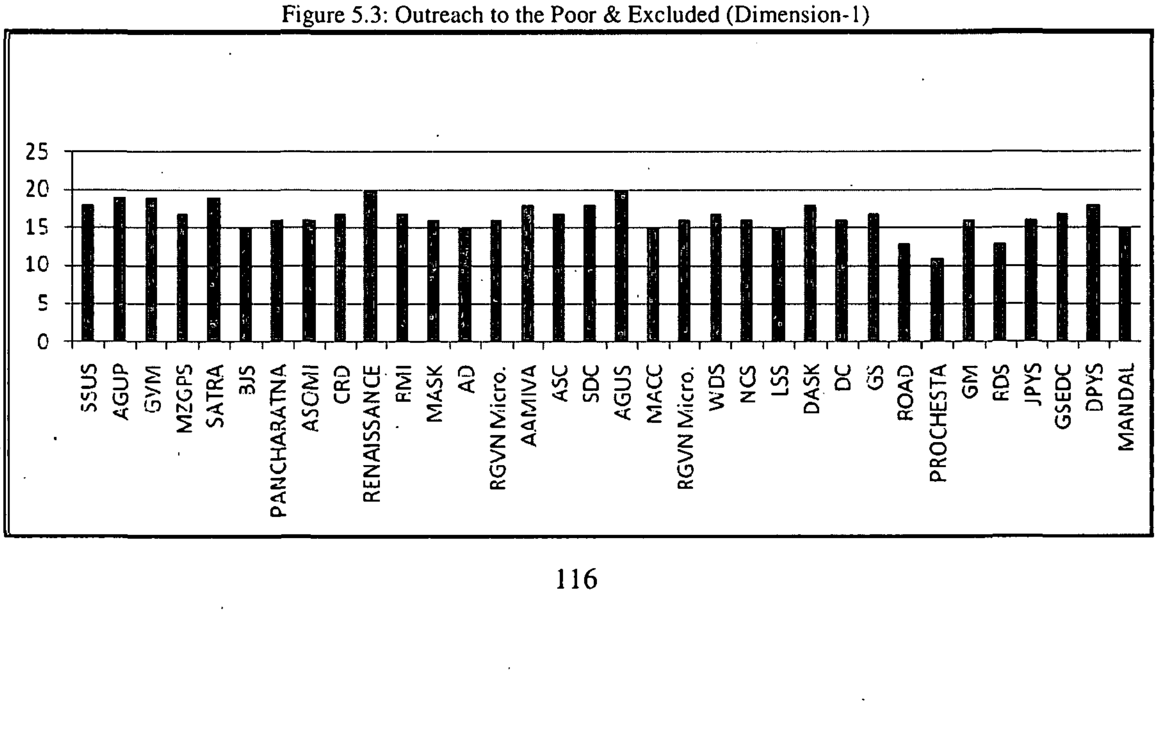


When the analysis is done sub-dimension wise, it has been seen that the social performance results of the sample MFIs demonstrated a strong emphasis on social collateral, tools for targeting and transparency and very less focus on social responsibility towards its clients and local community, human resource policy, empowerment, client representatives, participation, non-financial services, and range of services; and adequate focus on mission of the MFI, size of transactions, geographic and socio-economic focus, and quality of services. The performance of the Sample MFIs in terms of the various sub-dimensions of the SPI tool is presented in the following sections.

5.3. Outreach to the Poor and Excluded

MFIs face the challenge of sustainability and outreach (Robinson, 2001). Sustainability of MFIs depends on strong financial performance whereas social performance depends on the outreach aspect. In this section, an attempt is made to measure the MFIs' effort in achieving the outreach to the poor and excluded. Such an assessment contributes first to the empirical foundations of the microfinance movement and second to the development of appropriate management benchmarks and recommendations. The depth of outreach of the MFI can be measured to evaluate its focus on the economically and socially excluded population. Here outreach to the poor and excluded is measured in terms of five sub-dimensions viz., (i) mission of the MFI, (ii) geographic and socio-economic focus on client group, (iii) tools for targeting, (iv) size of transaction, and (v) collateral. The following diagram shows the individual MFI's performance in terms of outreach to the poor and excluded.

Figure 5.3: Outreach to the Poor & Excluded (Dimension-1)



Analysing the data at an individual MFI level, we find that the MFI, RENAISSANCE and AGUS have both attained the maximum outreach score of 20 (80%) out of 25, while PROCHESTA obtained a minimum score of 11 (44%). The possible reason of this high and low outreach performance as per the SPI tool is attributed to the degree of importance paid by MFIs to the following factors:-

A. Financial sustainability
B. Outreach to the poor
C. Positive impact on income of clients
D. To the excluded (women, illiterate individuals, unsecured workers)
E. Positive impact on education and social status of clients and their family members
F. Focus on its social mission
G. Loans for urban area
H. Loans for rural area
I. Loans for workers with insecure status, women and illiterate individuals.

In the following section, the five sub-dimensions of the outreach to the poor and excluded are illustrated one by one.

5.3.1. Mission of the MFI

This is the first sub-dimension which is used to measure the social performance of the sample MFIs by assessing the outreach in terms of (i) financial sustainability, (ii) outreach to the poor and excluded, (iii) positive impact on income of clients, (iv) inclusion of women, illiterate individuals, unsecured workers, and (v) positive impact on education and social status of clients and their family members. The following table highlights the performance of the MFIs on the above parameters.

Table 5.3: Relevance of the Mission of the MFIs

	Important Objective		Minor Objective	
	Frequency	Percent	Frequency	Percent
Financial sustainability	22	64.7	12	35.3
Outreach to the poor	28	82.4	6	17.6
Positive impact on income of clients	28	82.4	6	17.6
Inclusion of women, illiterate individuals,	26	76.5	8	23.5
Positive impact on education and social status	11	32.4	23	67.6

The data shows that according to 64.7% of the sample MFIs, 'financial sustainability' is an important objective of their organization. Similarly, to 82.4% of the sample MFIs, 'outreach to the poor and excluded' as well as 'positive impact on income of clients' is considered to be important objectives of the sample MFIs. Also 76.5% of the sample MFIs considers 'positive impact on education and social status of clients and their family members' to be an important organizational objective of the MFIs. In addition, it was also found that 88% of the sample MFIs' management focuses on their social mission by mentioning it clearly in the internal rules and regulations.

Thus for sample MFIs of Assam it appears that keeping in tune with its social focus, the following objectives get high priority i.e. outreach to the poor, positive impact on income of clients, and inclusion of women, illiterate individuals, and unsecured workers in its target group.

5.3.2. Geographic & Socio-economic Focus on Client Group

This is the second sub-dimension which is used to measure the social performance of the MFIs by assessing the outreach of the MFIs. Here outreach is measured by geographic and socio-economic focus on MFIs' client groups in terms of (i) inclusion of urban area, (ii) inclusion of rural area, (iii) inclusion of workers with insecure status, (iv) loan to women, and (v) Loan to illiterate individuals.

It is seen that find that 47.1% of the MFIs do not provide loans to urban area. The data also reveals that all the sample MFIs (100%) in Assam are providing loan to rural areas. Moreover, 41.2% of the sample MFIs provides loan to workers with insecure status like casual labors, landless tenants etc. which accounts for more than 30% of the MFIs' loan portfolio. An important finding of this study is that 88.2% of the sample MFIs provide loan to women which accounts for more than 30% of the MFIs' loan portfolio. Again majority (64.7%) of the sample MFIs provide loans to illiterate individuals which accounts for less than 30% of the MFI's loan portfolio. The following table illustrates the geographic and socio-economic focus of the sample MFIs.

Table 5.4: Geographic & Socio-economic Focus

	MFI provides loans to Urban Area		MFI provides loans to Rural Area		MFI provides loans to Casual labours, Landless tenants		MFI provides loans to Women		MFI provides loans to Illiterate individual	
	Frequency	In %	Frequency	In %	Frequency	In %	Frequency	In %	Frequency	In %
Never	16	47.1	0	0	6	17.6	0	0	6	17.6
Less than 30% of the Loan	12	35.3	4	11.8	14	41.2	4	11.8	22	64.7
More than 30% of the Loan	6	17.6	30	88.2	14	41.2	30	88.2	6	17.6
Total	34	100.0	34	100.0	34	100.0	34	100.0	34	100.0

The data reveals that all (100%) the sample MFIs provide loans to rural areas and the average percentage of the MFI's loan portfolio disbursed particularly to the rural areas is 83% of the total portfolio of the MFIs. Moreover, it is also found that all (100%) the sample MFIs provide loans to women and the average percentage of the MFI's loan portfolio particularly disbursed to women is 69% of the total portfolio. Further, the data reveals that 82.4% of the sample MFIs provides loans to workers with insecure status (casual laborers, landless tenants) as well as illiterate individuals. The average percentages of the MFIs' loan portfolio particularly disbursed to these groups are 32% and 20% respectively of the total MFIs' portfolio.

Table 5.5: Allocation of the Loan Portfolio of MFIs

	No. of MFIs	Percent	Average % of Loan Portfolio
Inclusion of urban area	18	53	24
Inclusion of rural area	34	100	83
Workers with insecure status	28	82	32
Loan to Women	34	100	69
Loan to Illiterate individuals	28	82	20

Table 5.5 shows that the 53% of the sample MFIs provide loans to urban areas and the average percentage of the sample MFIs' loan portfolio particularly disbursed to the urban area is 24% of the total loan portfolio. Thus it may be concluded that the sample MFIs have well diversified loan portfolio in terms of different geographic and socio-economic focus on client groups and majority (83%) of the loan portfolio is disbursed to the rural area and to women.

5.3.3. Tools for Targeting

The sample also reveals that majority (82%) of the MFIs use different targeting devices for improving the depth of poverty outreach. The following table highlights the tools or criteria used by the MFIs as a targeting device for improving the depth of poverty outreach.

The data shows that majority (32%) of the sample MFIs uses 'participatory wealth ranking' as a targeting device for improving the depth of poverty outreach. The data reveals that 11% of the sample MFIs targets its loan clients based on economic activity as well as on illiteracy.

Table 5.6: Tools of targeting Device for improving depth of poverty outreach

Tools of targeting Device for Poverty Outreach	No. of MFIs	In %
Below poverty Line	2	7
Casual laborers	1	4
Economic Activity	3	11
Farmers, Small Business	2	7
Household income must be less than Rs.50,000	1	4
Housing Index; firm size	2	7
Illiteracy	3	11
Local resident	1	4
Participatory wealth ranking	9	32
Those who do not get loan from the bank	1	4
Tribal Belt, 100% unreached; No savings habit	1	4
Unemployment & Common Activity	1	4
Only Women	1	4

Some of the other sample MFIs targets its loan clients based on below poverty line, small farming, small business, housing index, firm size, casual labours, individuals with annual household income of less than Rs.50,000, local residents, people who are deprived of banking services, tribal belts, common activity and women.

It has been observed that the sample MFIs are targeting clients who are totally different from those targeted by traditional banks and other formal financial institutions and are adopting different tools of targeting device for improving the depth of poverty outreach. Thus, it may be concluded that the majority of the sample MFIs targets its loan clients based on participatory wealth ranking, economic activity and illiteracy.

5.3.4. Size of Loan and Savings Transactions

The per capita GDP of India during 2009-10 was Rs.44,345. If the amount of loan size is compared with the GDP per capita, it is seen that majority (70%) of the total number of loans disbursed in the financial year 2009-2010 was below 50% of GDP per capita (Rs.22,173). 20% of the total number of loans disbursed was between 50-100% of GDP per capita (Rs.22,173 to Rs.44,345). Only 12% of the total number of loans disbursed was more than 100% of the GDP per capita (Rs.44,345). The following table shows the distribution of the number of individual loan account in relation to GDP per capita for the financial year 2009-2010.

Table 5.7: Distribution of Number of Loan Account for 2009-2010

Below 50% of GDP/Cap		Between 50-100% of GDP/Cap		Above 100% of GDP/Cap	
No. of Loans	in % of the Total No. of Loans	No. of Loans	in % of the Total No. of Loans	No. of Loans	in % of the Total No. of Loans
3616	70%	2483	18%	1130	12%

Past researchers reported that lower the size of the loan transactions, greater is the outreach (Schreiner, 2002; Baumann, 2004). As majority of the loans amounts are less than 50% of the GDP per capita of Rs. 22,173, it appears that that the sample MFIs are having greater and deeper outreach.

The data further reveals that only 35% of the sample MFIs offer savings account facility to their clients. The average number of the savings accounts per sample MFIs of Assam was found to be 2340 in the last financial year 2009-2010 with the standard deviation of 4951. But as per the RBI regulations, MFIs are not legally allowed to collect deposits from their clients. Thus it may be concluded that majority of the MFIs do not mobilize savings from their clients but some sample MFIs are collecting demand deposits from their clients' violating government regulations.

The number of savings accounts of the borrowers of the sample MFIs varies to a great extent as the standard deviation is very high as well as the minimum and the maximum number of savings accounts ranges from 110 to 16878.

Table 5.8: Descriptive Statistics of Number of Savings Account, 2009-2010

N	MFIs with Savings Facility	12
	MFIs without Savings Facility	22
Mean		2340
Median		362
Mode		110
Std. Deviation		4951
Minimum		110
Maximum		16878

From Table 5.9, it has been observed that majority (83%) of the total number of savings accounts in the financial year 2009-2010 is below 50% of GDP per capita (Rs.22,173). Moreover, 13% of the total number of savings accounts of the sample MFIs in the financial year 2009-2010 is between 50–100% of GDP per capita (Rs.22,173 to Rs.44,345). Only 5% of the total number of demand deposits in the financial year 2009-2010 is above 100% of the GDP per capita (Rs. 44,345).

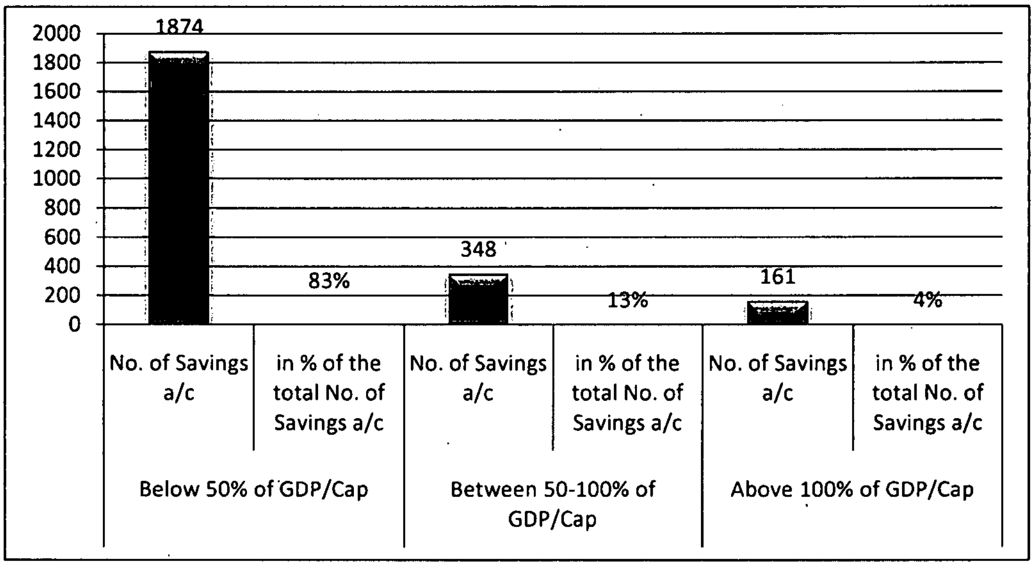
The following table shows the distribution of the number of individual savings account in relation to GDP per capita for the financial year 2009-2010.

Table 5.9: Distribution of Number of Savings Account in 2010

Below 50% of GDP/Cap		Between 50-100% of GDP/Cap		Above 100% of GDP/Cap	
No. of Savings a/c	in % of the total No. of Savings a/c	No. of Savings a/c	in % of the total No. of Savings a/c	No. of Savings a/c	in % of the total No. of Savings a/c
1874	83%	348	13%	161	4%

Past researchers report that lower the deposit account balance per client, greater is the outreach (Sebstad, 1998; Gehrke & Martínez, 2007). As majority of the demand deposits are less than 50% of the GDP per capita of Rs. 22,173, it appears that the sample MFIs are having greater and deeper outreach.

Figure 5.4: Distribution of the Number of Savings Account for 2009-2010



In addition, the data also reveals that the average size of savings account per annum is Rs.3262 (which is 8% of the GDP per capita in 2009-2010) with a standard deviation of Rs.1782. The following table shows the distribution of the minimum size of savings account in relation to GDP per capita for the financial year 2009-2010.

Table 5.10: Minimum Size of Savings Account
(in % of GDP per capita)

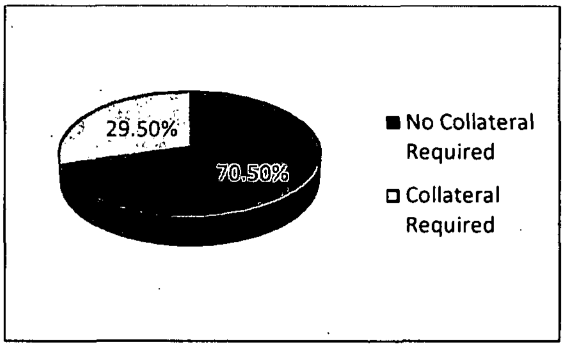
No. of MFIs	MFIs With Savings Facility	12
	MFIs Without Savings Facility	22
Mean (size of savings account)		Rs.3262
Median (size of savings account)		Rs.2800
Mode (size of savings account)		Rs.1200
Std. Deviation (size of savings account)		Rs.1782
Minimum (size of savings account)		Rs.1200
Maximum (size of savings account)		Rs.7498

Further, it has been observed that the sample MFIs provide financial services which reaches to the poor without of any restriction as the average savings amount of the clients of some sample MFIs is as low as Rs.10 per day.

5.3.5. Collateral

The data reveals that 70.5% of the sample MFIs do not require any social collateral whereas 29.5% of the sample MFIs need some collateral from their clients before disbursing any loan.

Figure 5.5: Collateral Required by MFIs



Among the samples, 86% of the MFIs provided loans if only secured by social collateral i.e., solidarity among groups, recommendation by trusted third party. Majority (97.1%) of the sample MFIs had 30% of their loan portfolio or more secured by social collateral. Only 2.9% of the sample MFIs did not provide loans particularly based on social collateral.

Table 5.11: MFIs agreeability to providing loans secured by 'social' collateral

	Frequency	Percent	Valid Percent	Cumulative Percent
Never	1	2.9	2.9	2.9
For more than 30% of the loans	33	97.1	97.1	100.0
Total	34	100.0	100.0	

Thus it may be concluded that majority of the sample MFIs do not require any collateral and agree to provide loans secured by social collateral only.

Therefore, regarding the mission of the sample MFIs of Assam, the study finds that keeping in tune with its social focus, the following objectives get high priority i.e. outreach to the poor, positive impact on income of clients, and inclusion of women, illiterate individuals, and unsecured workers in its target group.

Therefore, regarding the geographic and socio-economic focus on client groups of the MFIs, the study finds that the entire sample MFIs provide loans to rural areas as well as to women and the average percentages of the MFI's loan portfolio disbursed to these groups are 83% and 69% of the total portfolio of the MFIs respectively. The study further finds that 82.4% of the sample MFIs provide loans to workers with insecure status and illiterate individuals, and the average percentages of the MFI's loan portfolio disbursed to these groups are 32% and 20% of the total portfolio of the MFIs respectively. The study also reports that 53% of the sample MFIs provide loans to urban areas and the average percentage of the sample MFIs' loan portfolio particularly disbursed to the urban area is 24% of the total loan portfolio. Thus it may be concluded that the sample MFIs have well diversified loan portfolio in terms of different geographic and socio-economic focus on client groups.

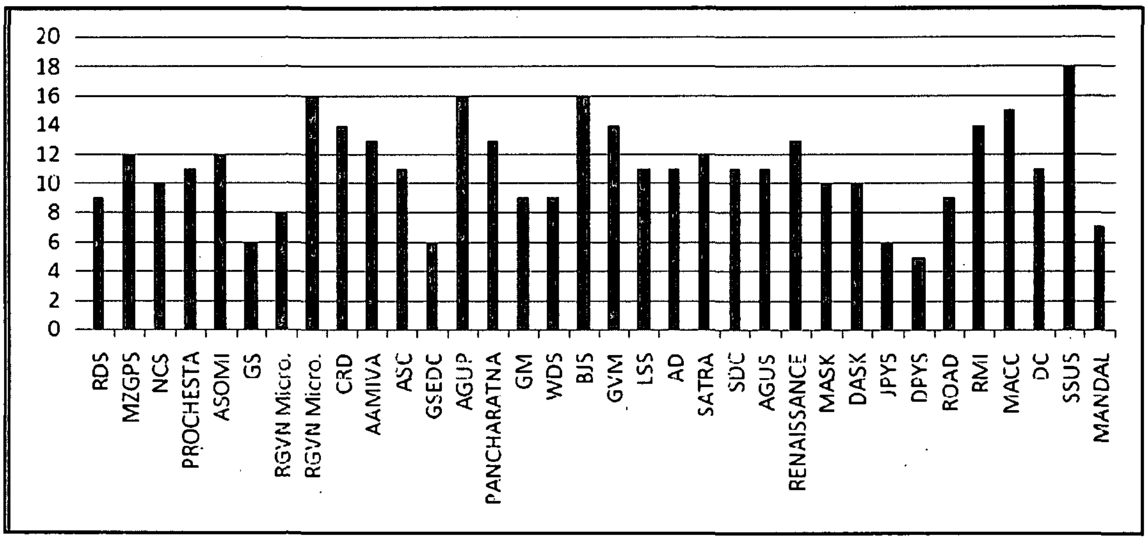
It has been observed that the sample MFIs of Assam are targeting clients who are totally different from those targeted by traditional banks and other formal financial institutions. Majority (82%) of the MFIs use different targeting devices based on participatory wealth ranking, economic activity and illiteracy for improving the depth of poverty outreach.

As majority of the loan amounts as well as the total number of savings accounts are less than 50% of the GDP per capita of Rs.22,173, it appears that the sample MFIs are having greater and deeper outreach during 2009-2010. The study also reveals that the average size of savings account per annum is Rs.3262 which accounts for 8% of the GDP per capita in 2009-2010. It has been observed that the sample MFIs provide financial services which reaches to the poor without of any restriction as the average savings amount of the clients of some sample MFIs is as low as Rs.10 per day. The study also reveals that majority of the sample MFIs do not require any social collateral and more than 30% of their loan portfolio is secured by social collateral.

5.4. Adaptation of the services and products to the target clients

This section represents the second dimension of social performance measurement of MFIs in terms of the adaptation of the services and products of MFIs to client requirement. The average score of the sample MFIs in terms of adaptation of the services and products to the target clients is only 11 out of 25 i.e. 45%. This score is relatively low when we compare with the average scores of other three dimensions viz., (a) outreach to the poor and excluded, (b) improvement of social and political capital of the clients, and (c) social responsibility of the institution.

Figure 5.6: Adaptation of the Services & Products to the Target Clients (D2)



Analysing the data at an individual MFI level, the results of this study reveal that SSUS has attained the maximum outreach score of 18 out of 25 i.e. 72%, while DPYS obtained a minimum score of 5. Here the performance dimension of the adaptation of the services and products to the target clients is measured in terms of four parameters viz., (i) range of services, (ii) quality of services, (iii) non-financial services accessible to the clients, and (iv) participation. To understand the performance dynamics of the sample MFIs in terms of the adaptation of the services and products of MFIs to their target clients, each of the above four parameters are illustrated below.

5.4.1. Range of Services:

This is another sub-dimension which is used to measure the social performance of the MFIs by assessing the range of services offered by the MFIs. Here the range of services is measured in terms of (i) types of loan products, (ii) nature of loan products, (iii) duration of the loan products, (iv) types of savings products, (v) availability of insurance products, and (vi) flexibility of repayments. The sample survey reveals that majority (52.90%) of the sample MFIs offer two or three products. Moreover, 26.50% of the sample MFIs offer only one product whereas 20.60% of the MFIs offer more than four products to their clients.

Table 5.12: Number of Loan Products

No. of loan Products	Frequency	Percent	Valid Percent	Cumulative Percent
Only One	9	26.5	26.5	26.5
For Two or Three	18	52.9	52.9	79.4
For more than Three	7	20.6	20.6	100.0
Total	34	100.0	100.0	

Thus it may be concluded that the sample MFIs are offering limited range of loan products to their clients and some MFIs are having only one loan product to offer to their clients.

The data also reveals that majority (67.60%) of the sample MFIs offer consumer or emergency loans. Only 32.40% of the sample MFIs do not offer any consumer or emergency loan to their clients.

Table 5.13: Consumer or Emergency Loans

	Frequency	Percent	Valid Percent	Cumulative Percent
No	11	32.4	32.4	32.4
Yes	23	67.6	67.6	100.0
Total	34	100.0	100.0	

The data further reveals that majority (91.2%) of the sample MFIs provide loans to their clients for 7 to 12 months. 67.6% of the sample MFIs provide loans to their clients for above one year. On the other hand, only 26.5% of the MFIs offer loans to their clients for less than 6 months period.

Table 5.14: Duration of the Loan Products

	0 to 6 months		7 to 12 months		Above 12 months	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
No	25	73.5	3	8.8	11	32.4
Yes	9	26.5	31	91.2	23	67.6
Total	34	100.0	34	100.0	34	100.0

Generally, loans for a period of more than one year are considered to be a long-term loan and if the period is less than one year, the loan is considered to be a short-term loan. Thus it may be concluded that the sample MFIs are giving more short-term loans as compared to the long term loans.

Table 5.15: Different Types of Savings Product

	Frequency	Percent	Valid Percent	Cumulative Percent
No Savings Product	22	64.7	64.7	64.7
One or Two	11	32.4	32.4	97.1
More than Two	1	2.9	2.9	100.0
Total	34	100.0	100.0	

Majority (64.7%) of the sample MFIs do not offer savings account facility to their clients. 35.3% of the sample MFIs offer savings account facility to their clients, out of which majority (97.1%) of the MFIs have one or two types of savings accounts. Only one MFI has more than two types of savings account facility for their clients.

It has been seen that some (29.4%) of the sample MFIs offer insurance facility to their clients and thus the clients get an opportunity to avail the benefits of micro-insurance facility which may be extremely helpful in case of the occurrence of uncertain situations for the clients of MFIs.

Table 5.16: Insurance Products Offered

	Frequency	Percent	Valid Percent	Cumulative Percent
No	24	70.6	70.6	70.6
Yes	10	29.4	29.4	100.0
Total	34	100.0	100.0	

Thus it can be concluded that majority (70.6%) of the sample MFIs do not offer any insurance products to their clients.

The data also reveals that there is lack of flexibility for the clients in loan repayment system of the sample MFIs. Majority (58.8%) of the sample MFIs have only one fixed schedule of repayment.

Table 5.17: Flexibility of repayment

	Frequency	Percent	Cumulative
Only one program fixed by the MFI	20	58.8	58.8
The programme proposes different schedules	8	23.5	82.4
The schedule is decided with the clients when receiving the loan	6	17.6	100.0
Total	34	100.0	

On the other hand, 23.5% of the MFIs propose different repayment schedules for their clients. Surprisingly, the data shows that 17.6% of the sample MFIs tailor-made the repayment schedule as per the convenience of their clients. This is a healthy practice and shows MFIs' dynamism in providing more flexible financial products for the poor. Though there are only few MFIs doing this healthy practice but this kind of flexibility is required for some activities where there is no regular flow of money like for agricultural activities etc. Therefore, it can be concluded that there is lack of flexibility for the clients in loan repayment system of the sample MFIs as majority (58.8%) of the sample MFIs have only one fixed schedule of repayment.

5.4.2. Quality of Service:

This is another sub-dimension which is used to measure the social performance of the MFIs by assessing the quality of services delivered by the MFIs to their clients. Here quality of service is assessed in terms of (i) distance travelled by clients, (ii) prompt delivery of the loans, (iii) market surveys conducted, (iv) percentage of client drop-out or inactive clients, and (v) surveys on client drop-outs. The sample data reveals that for majority (67.6%) of the MFIs, clients had to travel more than 5 km distance to receive loan or to make deposits. Only for 32.4% of the sample MFIs, clients travelled less than 5 km distance for their savings or loan transactions. The mean distance travelled by the clients is 10.27 km with minimum of 0 km and maximum of 35km. After the assessment of creditworthiness of the borrowers, some of the MFIs provide loans at the residence of the borrowers.

Table 5.18: Maximum Distance Traveled by Clients to Receive Loan or Make Deposit

	Frequency	Percent	Valid Percent
More than 5 km	23	67.6	67.6
Less than 5 km	11	32.4	32.4
Total	34	100.0	100.0

Prompt delivery of loans depends on the frequency of meetings of the credit committee. The data shows that majority (82.4%) of the MFIs' credit committees are conducting more than one meeting in a month. This shows level of dynamism and responsiveness of the MFIs to their clients.

Table 5.19: Frequency of Meeting of Credit Committee

	Frequency	Percent	Valid Percent	Cumulative Percent
Up to once a month	6	17.6	17.6	17.6
More than once a month	28	82.4	82.4	100.0
Total	34	100.0	100.0	

The data further reveals that majority (50%) of the MFIs do not conduct any market survey to improve the quality of services to their clients. Moreover, 29.4% of the MFIs conduct market survey on irregular basis whereas only 17.6% of the sample MFIs conduct regular market survey. On the other hand, it is found that only 2.9% of the sample MFIs conduct market survey at the beginning of their microcredit operations.

Table 5.20: Conducting Market Surveys by MFIs

	Frequency	Percent	Valid	Cumulative Percent
Never	17	50.0	50.0	50.0
Only at the beginning	1	2.9	2.9	52.9
Sometimes on irregular basis	10	29.4	29.4	82.4
Regularly, planned in the strategy of the MFI	6	17.6	17.6	100.0
Total	34	100.0	100.0	

Those clients who do not have any credit or savings transaction with the particular MFI for more than a year are considered to be inactive or drop-out clients. Here the proportion of inactive or dropout client is calculated by the number of drop-outs over the average number of clients during the last financial year 2009-2010. The data shows that all together 94.2% of the sample MFIs have less than 30% dropouts or inactive clients. Only 5.9% of the sample MFIs have more than 30% dropouts or inactive clients. The average number of inactive or dropout clients of the MFIs was 7.68% during 2009-2010 with minimum of zero and maximum of 35%.

Table 5.21: Client Drop-outs or Inactive Clients

	Frequency	Percent	Valid Percent	Cumulative Percent
More than 30%	2	5.9	5.9	5.9
10 - 30%	16	47.1	47.1	52.9
Less than 10%	16	47.1	47.1	100.0
Total	34	100.0	100.0	

Surprisingly, 67.6% of the sample MFIs never conducted any survey on dropout or inactive clients. Only 32.4% of the MFIs have conducted survey on dropout or inactive clients during 2009-2010.

Table 5.22: Surveys on Client Drop-outs

	Frequency	Percent	Valid Percent	Cumulative Percent
Never	23	67.6	67.6	67.6
Done	11	32.4	32.4	100.0
Total	34	100.0	100.0	

As majority (67.6%) of the sample MFIs never conducted any survey on dropout or inactive clients, it appears that the sample MFIs may not be professional in managing their drop-outs or inactive clients.

Thus, regarding the quality of services of the sample MFIs of Assam, it has been observed that for majority (67.6%) of the MFIs, clients had to travel more than 5 km distance to receive loan or to make deposits. The sample MFIs shows some dynamism and responsiveness to their clients as majority (82.4%) of the MFIs' credit committees are conducting more than one meeting in a month. But it has been seen that majority (50%) of the MFIs do not conduct any market survey to improve the quality of services to their clients. It appears that the sample MFIs may not be professional in managing their drop-outs or inactive clients. The average number of inactive or dropout clients of the sample MFIs was 7.68% during 2009-2010 and majority (67.6%) of the sample MFIs never conducted any survey on dropout or inactive clients.

5.4.3. Non-financial Services Accessible to the Clients:

In this section, an attempt is made to find out the effort of the MFIs in ensuring the clients' accessibility to the non-financial services (related to financial and economical management of the loan) like business training, management of family budget, access to market, innovation, etc. The sample data shows that majority (55.9%) of the MFIs are providing some non-financial services for some or for all on a compulsory basis. This clearly indicates that the majority of the sample MFIs have some sort of socially responsibility towards their clients. But 35.3% of the MFIs do not provide any non-financial services related. On the other hand, only 8.8% of the sample MFIs provide non-financial services for all clients on a voluntary basis.

Moreover, majority (76.5%) of the sample MFIs provide non-financial services related to social needs like literacy training, health services, access to social workers, etc. On the other hand, 14.7% of the sample MFIs do not provide any non-financial services related to social needs and only 8.8% of the sample MFIs provide it to all clients on a voluntary basis to their clients.

Table 5.23: Non-financial Services to the Clients

	Financial and Economical Management of the Loan		Social Needs	
	Frequency	Percent	Frequency	Percent
No	12	35.3	5	14.7
For some clients on a compulsory basis	19	55.9	26	76.5
For all clients on a voluntary basis	3	8.8	3	8.8
Total	34	100.0	34	100.0

Thus it may be concluded that majority of the sample MFIs provide non-financial services related to social needs (literacy training, health services, access to social workers, etc.) as well as financial and economic management of the loan (business training, management of family budget, access to market, innovation, etc.).

5.4.4. Participation

This is another sub-dimension which is used to measure the social performance of the MFIs by assessing the clients' involvement in the design of the products and services offered by these MFIs. The involvement of the clients in the design of the products and services is measured in terms of usage of some tools such as meetings, surveys or focus-group discussions with their clients of the MFIs. The results of the survey reveal that majority (47.1%) of the sample MFIs do not encourage clients' involvement in the design of the products and services in Assam. Only 14.7% of the MFIs regularly ensure clients involvement in the design of the microfinance products and services.

Table 5.24: Participation of Clients in the Design of the Services

	Frequency	Percent	Valid Percent	Cumulative Percent
No	16	47.1	47.1	47.1
For the early stages of the MFI	13	38.2	38.2	85.3
Regularly (i.e. at least once a year)	5	14.7	14.7	100.0
Total	34	100.0	100.0	

38.2% of the MFIs involved its clients in the design of the services only during the early stage of the MFI. It was observed that after clients' participation in the design of the products and services through meetings, surveys or focus-group discussions with their clients, some MFIs:-

- Started Joint Liability Group (JLG)
- Started collection of repayment in monthly installments and did away with weekly repayment system.
- Created innovative products like loans for Fish Van, Momo Van, Vegetable Van etc.
- Decided to start individual loan products
- Modified JLG practices
- Took feedback during the training period
- Decided to start Fixed Deposit schemes
- Conducted field level meetings with clients
- Conducted meeting with the clients at the co-ordinator level
- Conducted monthly area meetings
- Started systematic appraisal of the loan.

Thus, it may be concluded that majority (47.1%) of the sample MFIs of Assam do not encourage clients' involvement in the design of the products and services in Assam. But those MFIs that did encourage clients' involvement in the design of the products and services were seen to have better, appropriate, effective and innovative financial products/services for the poor.

Therefore, regarding the range of services of the sample MFIs of Assam, the study finds that the sample MFIs are giving more short-term loans of 6 to 12 months as compared to the long-term loans of more than one year. Majority (67.60%) of the sample MFIs provide consumer or emergency loans in case of any immediate requirement. But the study also highlights that the sample MFIs of Assam are offering limited range of loan products to their clients and some MFIs are having only one loan product to offer to their clients. 35.3% of the sample MFIs offer savings account facility to their clients, out of which majority (97.1%) of the MFIs have one or two types of savings accounts. The study reveals that majority (70.6%) of the sample MFIs do not offer any insurance products to their clients. The study concludes that there is lack of flexibility for the clients in loan repayment system of the sample MFIs as majority (58.8%) of the sample MFIs have only one fixed schedule of repayment.

Regarding the quality of service of the sample MFIs of Assam, the study finds that in case of majority of the MFIs, their clients had to travel more than 5 km distance to receive loan or to make deposits and the mean distance travelled by the clients is 10.27 km with minimum of 0 km and maximum of 35km. After the assessment of the creditworthiness of the clients, some MFIs provide the loan amount at the client's residence. The study also highlights that 94.2% of the sample MFIs have less than 30% dropouts or inactive clients and the average number of inactive or dropout clients of the sample MFIs was 7.68% during 2009-2010 with minimum of zero and maximum of 35%. The study also reports that majority of the MFIs' credit committees are conducting more than one meeting in a month. But the study also finds that majority of the MFIs do not conduct any market survey to improve the quality of services to their clients. As majority of the sample MFIs never conducted any survey on dropout or inactive clients it appears that the sample MFIs may not be professional in managing their drop-outs or inactive clients.

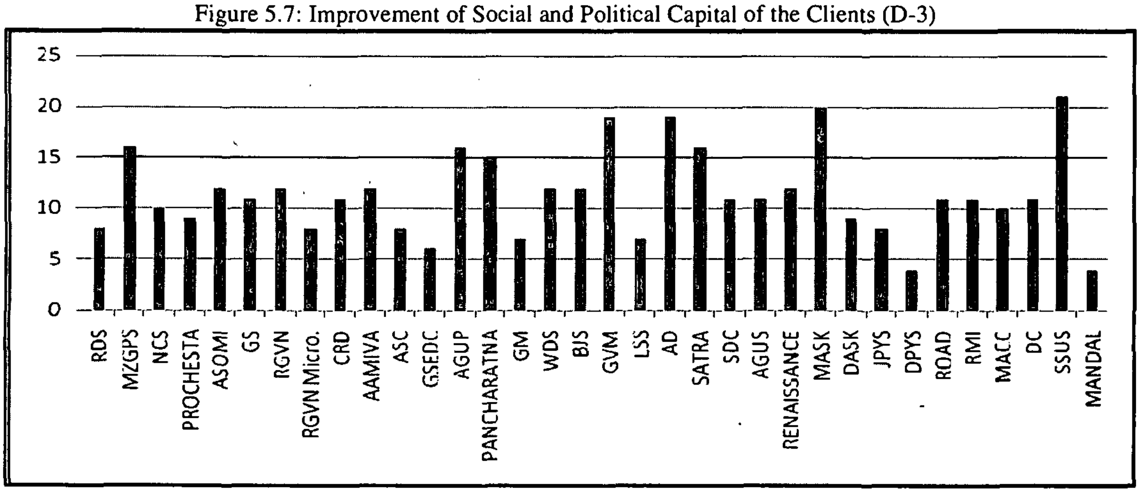
Regarding the non-financial services accessible to the clients of the sample MFIs of Assam, the study finds that majority of the MFIs are providing some non-financial services for some or for all on a compulsory basis. This clearly indicates some sort of social responsibility of the sample MFIs towards their clients. The study concludes that majority of the sample MFIs provide non-financial services related to social needs (literacy training, health services, access to social workers, etc.) as well as financial and economic management of the loan (business training, management of family budget, access to market, innovation, etc.).

Regarding the participation of the clients in the management of the sample MFIs of Assam, it has been observed that majority of the MFIs do not encourage clients' involvement in the design of the products and services. But those MFIs that did encourage clients' involvement in the design of the products and services were seen to have better, appropriate, effective and innovative financial products/services for the poor.

5.5. Improvement of Social and Political Capital of the Clients

This section represents the third dimension of social performance measurement of MFIs. Here an attempt is made to find out the contribution of MFIs in terms of the improvement of social and political capital of the clients. The average score of the sample MFIs in terms of improvement of social and political capital of the clients is only 12 out of 25 i.e. 48%. This score is relatively low when we compare with the average scores of other three dimensions.

Figure 5.7: Improvement of Social and Political Capital of the Clients (D-3)



Analysing the data at an individual MFI level, it is seen that SSUS has attained the maximum score of 21 out of 25 i.e. 84%, while DPYS and MANDAL obtained a minimum score of 4 (16%).

Here, the improvement of social and political capital of the clients is measured in terms of four parameters viz., (i) transparency (ii) client representatives, and (iii) employment. To understand the performance dynamics of the sample MFIs in terms of the improvement of social and political capital of the clients, each of these parameters are illustrated below.

5.5.1. Transparency

Transparency of the loan statement is very important for the borrowers in terms of differentiation between the amount of the principal and the amount of the interests and fees to be paid in order to give clear information to the borrowers. The clients in the remote areas are not well educated and do not understand the banking transactions very well. So the clients need to be explained about the loan interest and fees that is charged from them. This would help the clients to compare the rate of interest of the MFIs with that of the local money lenders and other financial service providers. This would certainly spread financial literacy and instill confidence among the clients on the reliability of the MFIs.

Table 5.25 shows that 88.2% of the sample MFIs were transparent about the amount of the principal and the amount of the interests and fees to be paid by the clients. Further it is seen that although majority of the sample MFIs of Assam are transparent but yet 11.80% of the MFIs did not provide break-up about the amount of the principal and the amount of the interest and fees to be paid by the clients.

Table 5.25: Transparency in Loan Statement

	Frequency	Percent	Valid Percent
No	4	11.8	11.8
Yes	30	88.2	88.2
Total	34	100.0	100.0

Again, transparency is measured in terms of documentation of the loan. The sample survey reveals that 97.10% of the MFIs issue written statements on loan repayments to their clients. Only one sample MFIs did not issue any document on the loan transaction to its clients.

Table 5.26: Loan Documentation

	Frequency	Percent	Valid Percent
No	1	2.9	2.9
Yes	33	97.1	97.1
Total	34	100.0	100.0

Except one MFI, the rest 33 MFIs said that their clients had access to their annual accounts.

Table 5.27: Access to the MFI's Annual Accounts

	Frequency	Percent	Valid Percent	Cumulative Percent
No	1	2.9	2.9	2.9
Yes	33	97.1	97.1	100.0
Total	34	100.0	100.0	

Thus analysing the above data it may be concluded that almost all the MFIs' annual accounts can be accessed by their clients and these MFIs also maintain full transparency in terms of differentiation between the amount of the principal and the amount of the interests and fees to be paid in order to give clear information to the borrowers.

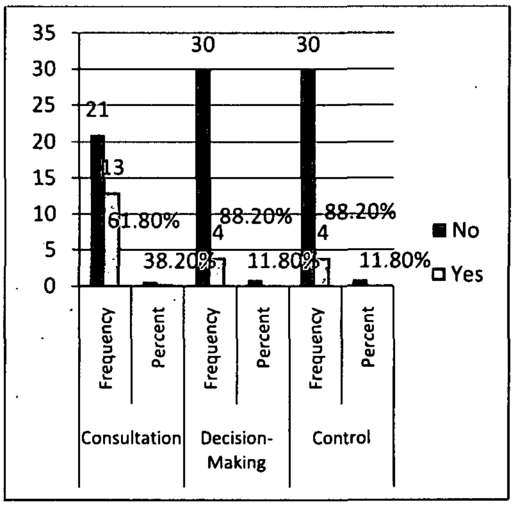
5.5.2. Clients Representatives

This is another sub-dimension which is used to measure the social performance of the MFIs in terms of the improvement of social and political capital of the clients. In this section an attempt is made to find out the clients participation and involvement in the MFI's management in terms of three parameters viz., (i) consultation (ii) decision-making, and (iii) control. The need and requirement of the financial services of the clients of the MFIs are different from that of the formal banking and financial institutions. With proper participation and representatives from the clients, MFI management would be able to understand the specific financial requirements of their clients. This would certainly help the MFI management to design the appropriate financial products and services as per the financial need of their clients.

Table 5.28: Clients representatives in MFI Management

	Consultation		Decision-Making		Control	
	Frequency	In %	Frequency	In %	Frequency	In %
No	21	61.8	30	88.2	30	88.2
Yes	13	38.2	4	11.8	4	11.8
Total	34	100.0	34	100.0	34	100.0

Figure 5.8: Clients Representatives in MFI

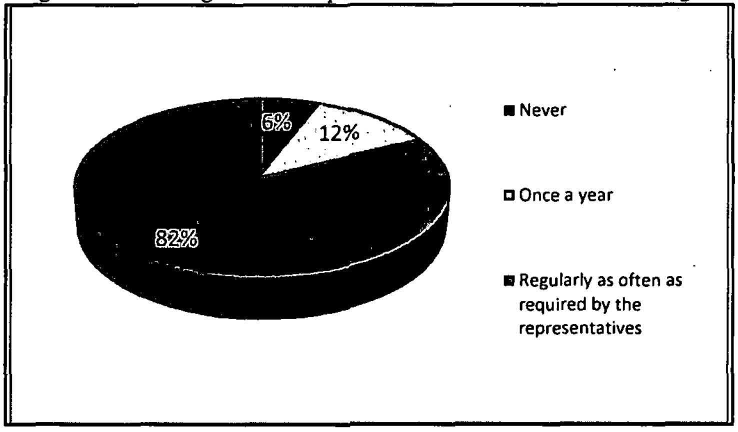


The study reveals that only in 38.2% sample MFIs, client representatives are elected to the MFI management body for consultation. Majority of the samples (64.80%) do not have any client representatives in their MFI management body. Further it is found that only in 11.8% of the samples MFIs, clients influence the MFI management body in decision-making and control.

Thus it may be concluded that majority of the MFIs in Assam do not involve their clients for consultation, decision-making and control. It was also observed that there are huge benefits for MFIs to have client representatives in the MFI management as the client specific problems can be easily identified with a readymade solution. In this process, the financial products and services of the MFIs would become more flexible and dynamic.

The data further shows that out of those sample MFIs having a client representative body, 82% of the client representative bodies meet the MFI managers regularly as often as required by the representatives. Moreover, 12% of these client representative bodies meet MFI managers annually and 6% do not meet at all.

Figure 5.9: Meeting of Clint Representative Bodies with MFI Managers



Thus it may be concluded that majority of the client representative bodies meet the MFI managers regularly and communicate their problems. The data further reveals that only 52.90% of the MFIs are having a system of rotation among the elected members in the MFI management body. Moreover, in 47.10% of the sample MFIs, there is no system of rotation of the elected members which indicates lack of democratic participation in the MFIs decision making.

Table 5.29: System of Rotation of the Elected Members

	Frequency	Percent	Valid Percent	Cumulative Percent
No	16	47.1	47.1	47.1
Yes	18	52.9	52.9	100.0
Total	34	100.0	100.0	

The sample MFIs revealed that majority (70.60%) of the sample MFIs of Assam provide training to their selected representatives and their elected members on an irregular basis; whereas 26.50% of the MFIs do not provide any training to their members.

Table 5.30: Training of Representatives & Elected Members

	Frequency	Percent	Valid Percent	Cumulative Percent
No	9	26.5	26.5	26.5
Yes, on an irregular basis	24	70.6	70.6	97.1
Yes, on a regular basis, planned in the strategy and related to the rotation of representatives.	1	2.9	2.9	100.0
Total	34	100.0	100.0	

Only one sample MFI was found to provide training to its members on a regular basis and also had a need based training calendar. Therefore it may be concluded that there is lack of capacity building in terms of regular professional training programmes for the representatives and elected members of the MFI management.

Another important aspect of social contribution of MFIs is encouragement of the participation of women among the client representatives in the MFI management. The data shows that only 14.7% of the MFIs have women representatives proportionate to women clients; 11.80% of the MFIs have few women representatives in the MFI management. Majority of the MFIs (73.50%) do not have women among the client representatives in the MFI management.

Table 5.31: Percentage of Women among Client Representatives

	Frequency	Percent	Valid Percent	Cumulative Percent
No women Representative	25	73.5	73.5	73.5
Few Women Representatives	4	11.8	11.8	85.3
The Same Proportion as Female Clients	5	14.7	14.7	100.0
Total	34	100.0	100.0	

Thus it may be concluded that the male participation in the MFIs' management is more than female participation.

5.5.3. Empowerment

This is another parameter which is used to measure the social performance of the MFIs in terms of the improvement of social and political capital of their clients. In this section, an attempt is made to find out MFI's role and contribution in encouraging empowerment in terms of strengthening the social cohesion of the local community, participating in the local or national government and providing the leadership training for the clients in the form of team building, representation, etc. The data shows that majority (55.90%) of the sample MFIs feel that strengthening the social cohesion of the local community is a minor objective, whereas 29.40% of the sample feel that it is a major objective of the MFI.

Table 5.32: MFI's Operations Strengthen the Social Cohesion of the Local Community

	Frequency	Percent	Valid Percent	Cumulative
No	5	14.7	14.7	14.7
Indirect, minor objective	19	55.9	55.9	70.6
Direct, major objective	10	29.4	29.4	100.0
Total	34	100.0	100.0	

Moreover, majority (50%) of the sample MFIs feel that its operation increases the voice of its clients in the local or National government and this aspect is stated as their minor objective; whereas only 14.70% of the sample MFIs state this as their major objective.

Table 5.33: MFI's Operations Increase the Voice of its Clients

	Frequency	Percent	Valid Percent	Cumulative Percent
No	12	35.3	35.3	35.3
Indirect, minor objective	17	50.0	50.0	85.3
Direct, major objective	5	14.7	14.7	100.0
Total	34	100.0	100.0	

Moreover, 35.30% of the sample MFIs feel that the operations of the MFIs do not increase the voice of their clients in the local community. On further investigation, it was found that some clients of the MFIs:-

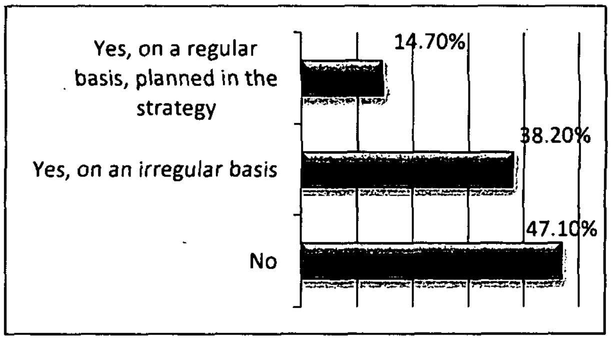
- were elected as a Panchayat President, Panchayat Member, Zila Parisad member; Councilor in the local government;
- were elected a member of a Market/Bazar/Nagarik Committee, Rickshaw Association;
- were able to deliver Public Speech;
- formed their own NGO & started lending;
- became Secretary, Executive Member, Governing Body Member of the MFI;
- were able to manage SHG Book-keeping;
- were able to come together and solve problems in schools, hindu & muslim communities, mid-day meal corruptions and also could tackle problems of alcoholism.

Another important finding from this study is that 47.1% of the sample MFIs did not provide any leadership training to their clients. Moreover, 38.2% of the sample MFIs did provide leadership training to their clients on an irregular basis. Only 14.7% of the MFIs provided leadership training to their clients on a regular basis and also include it as part of their strategy. Thus it may be concluded that there is lack of regular leadership training among the clients of MFIs in Assam.

Table 5.34: Leadership Training for Clients

	Frequency	Percent
No	16	47.1
Yes, on an irregular basis	13	38.2
Yes, on a regular basis, planned in the strategy	5	14.7
Total	34	100.0

Figure 5.10: Leadership Training for Clients



Lastly, on a scale of 0 (no effect) to 2 (large influence), MFIs were asked to rank their power to influence the policy decisions of the local government or National government.

Table 5.35: MFI Power to Influence the Public Policy of the Local Government

	Local Government		National Government	
Score	Frequency	Percent	Frequency	Percent
0	12	35.3	21	61.8
1	14	41.2	10	29.4
2	8	23.5	3	8.8
Total	34	100.0	34	100.0

23.50% of the sample MFIs feel that they have large influence over the public policy of the local government, whereas only 8.8% of the MFIs feel that they have influenced the national government to a large extent. Overall it can be seen that 64.7% of the sample MFIs have some influence on the microfinance policy decisions of the local government whereas 38.2% of the MFIs felt that they have influenced the national government. A significant percentage of the sample MFIs could influence neither the local government and nor the national government. Thus it may be concluded that at the local government level, the sample MFIs believe that they can exert some influence but at the national level, it is very negligible.

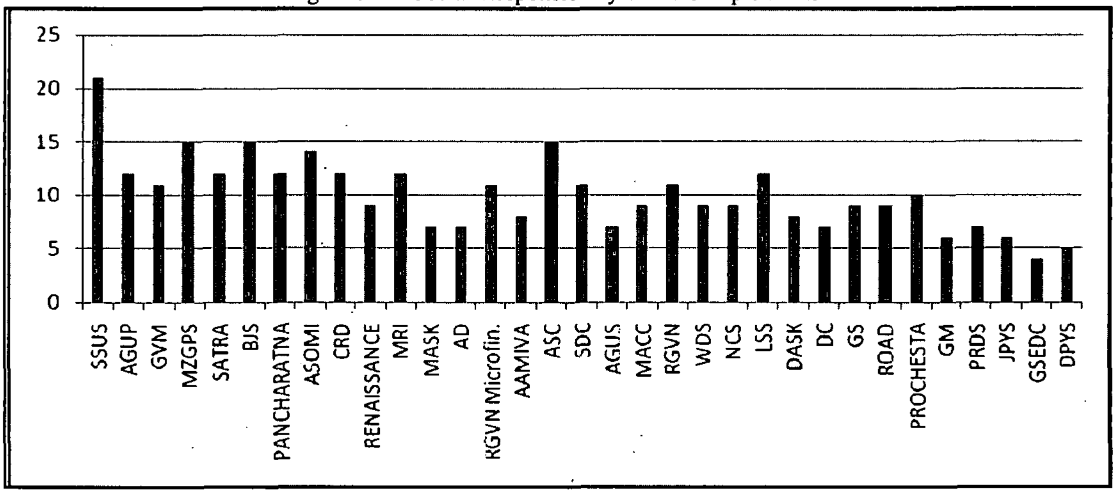
Therefore, regarding the improvement of the social and political capital of the clients, some good characteristics and practices of the sample MFIs of Assam have been observed. The study finds that majority of the MFIs maintain full transparency in terms of providing detailed loan statements, loan documentation and accessibility of the MFIs' annual accounts by their clients. Majority of the client representative bodies meet the MFI managers regularly and communicate their problems. The study also reports that majority of the sample MFIs are having a system of rotation among the elected members in the MFI management body and ensure democratic participation in the MFI's management decisions. But regarding the client representativeness in the MFI's management, the study finds that majority of the sample MFIs of Assam do not involve their clients for consultation, decision-making and control.

The study also finds that there is lack of capacity building in terms of regular professional training programmes for the representatives and elected members of the MFI management and majority of the MFIs do not have women among the client representatives in the MFI management. The study highlights that majority of the MFIs do not provide any leadership training to their clients. Regarding empowerment of the clients of the sample MFIs of Assam, the study reports that majority of the sample MFIs feel that strengthening the social cohesion of the local community is a minor objective, whereas 29.40% of the sample feel that it is a major objective of the MFI. At the local government level, the sample MFIs believe that they can exert some influence but at the national level, it is very negligible.

5.6. Social Responsibility of the Institution

This section represents the fourth dimension of social performance measurement i.e. the social responsibility of the sample MFIs. The average score of social responsibility of the sample MFIs is only 10 out of 25 i.e. 40%. This score is relatively low when we compare with the average scores of other three dimensions.

Figure 5.11: Social Responsibility of the Sample MFIs



Analysing the data at an individual MFI level, it is seen that SSUS has attained the maximum score of 21 out of 25 i.e. 84%, while GSEDC obtained the minimum score of 4. The causes of variation in the performance of the social responsibility of the MFIs is explained in terms of three variables viz., (i) human resource policy, (ii) social responsibility towards the clients, and (iii) social responsibility towards the local community. To understand the performance dynamics of the sample MFIs in terms of its social responsibility, each of these sub-dimensions are illustrated below.

5.6.1. Human Resource Policy

This represents the first parameter which is used to measure the social performance of the MFIs. The effectiveness of the human resource policy is evaluated in terms of five parameters viz., (i) comparing annual income of a loan officer with that of a primary teacher in the same community, (ii) annual budget for training of employees, (iii) employees participation in decision-making, (iv) employees health coverage, and (v) employees turnover ratio.

Majority (94.1%) of the sample respondents revealed that the initial annual income (with bonuses) for loan officer is much lower when compared to that of a school teacher (primary school) in the same locality. Only 5.9% of the sample MFIs are able to offer to their loan officer the same salary that of a school teacher. None of the MFIs could offer higher salary to their loan officer.

Table 5.36: Income of Loan Officer versus School Teacher

	Frequency	Percent
Much lower	32	94.1
About the same	2	5.9
Higher	0	0
Total	34	100.0

Thus it may be concluded that the majority of the MFIs' annual income of the loan officers is much lower than the primary school teacher in the same community.

The sample data further revealed that majority (61.8%) of the MFIs in Assam are keeping less than 1% of their annual budget per annum for training of its employees. Moreover, for training of its employees, 20.6% of the sample MFIs kept between 1% and 5% of their annual budget per annum; whereas only 17.6% of the MFIs spent more than 5% of their annual budget per annum for training of its employees.

Table 5.37: Annual Budget for Training of Employees

	Frequency	Percent	Valid Percent	Cumulative
Less than 1%	21	61.8	61.8	61.8
Between 1% and 5%	7	20.6	20.6	82.4
More than 5%	6	17.6	17.6	100.0
Total	34	100.0	100.0	

The low level of budget for training of its employees may be due to the fact that most of the sample MFIs of Assam are very small and have just started microfinance operations. Due to their fund constraint, these MFIs spend very little for the training of its employees. Most of these MFIs depend on the training programmes organised by the government agencies like NABARD, SIDBI, NEDFI, DRDA etc.

The data further revealed that majority (91.2%) of the sample MFIs' management encourage employee participation in MFI's decision-making through dialogue and consultation. Only 5.9% of the MFIs encourage employee participation through a consultative elected body or through participation in the governance. On the other hand, 2.9% of the samples MFIs do not allow employees to participate in MFI's decision making.

Table 5.38: Employee Participation in Decision Making

	Frequency	Percent	Cumulative
No	1	2.9	2.9
Through dialogue or consultation between staff and direction	31	91.2	94.1
Through a consultative elected body or through participation in the governance	2	5.9	100.0
Total	34	100.0	

Thus it may be concluded that majority of the MFIs in Assam are adopting a healthy human resource policy and following consultative style of management.

The sample survey results indicate that majority (61.8%) of the MFIs do not provide any health coverage to their employees. 38.2% of the MFIs ensure that the employees have access to some type of health coverage. Thus it may be concluded that the employees of most of the MFIs have not yet received minimum service benefits in the form of health coverage in Assam.

Table 5.39: Health Coverage of Employees

	Frequency	Percent	Valid Percent	Cumulative
No	21	61.8	61.8	61.8
Yes	13	38.2	38.2	100.0
Total	34	100.0	100.0	

Employee turnover is an important indicator of a strong and effective human resource policy and also employee satisfaction. Employee turnover ratio is calculated by the number of employees who have left the MFI during the last 12 months, as a percentage of the average number of employees. For 52.9% of the sample MFIs, there was no attrition of its employees during the last 12 months and for 29.4% of MFIs, the employee turnover ratio was 10%. This is an important finding considering the low level of salary of the employees of the sample MFIs. The average employee turnover ratio is 4.29%.

Table 5.40: Employees Turnover

	Frequency	Percent	Valid Percent	Cumulative
More than "10%"	6	17.6	17.6	17.6
Less than "10%"	10	29.4	29.4	47.1
No departure	18	52.9	52.9	100.0
Total	34	100.0	100.0	

5.6.2. Social Responsibility towards the Clients

This is the second sub-dimension which is used to measure the social performance of the MFIs by assessing the social responsibility of the MFIs towards their clients. The social responsibility of the MFIs towards their clients is measured in terms of four parameters viz., (i) conducting socio-economic study, (ii) changing of its products and services due to negative impact on social cohesion or welfare of its clients, (iii) insurance that frees the family from the burden of debt in case of death of the borrower, and (iv) rescheduling of the loans in case of natural disaster.

The data reports that majority (58.8%) of the sample MFIs have not yet conducted any socio-economic studies to assess the situation of the clients. 14.7% of the sample MFIs were planning to conduct such studies within the next one year. 11.8% of the MFIs had conducted such studies once in the past. Only 14.7% of the MFIs conduct socio-economic studies every year to assess the situation of the clients. As majority (58.8%) of the MFIs had not yet conducted any socio-economic studies to assess the situation of the clients, it appears that the sample MFIs of Assam are not much concerned about their social responsibility towards their clients.

Table 5.41: Socio-economic Studies Conducted

	Frequency	Percent	Valid Percent	Cumulative Percent
Never and not planned	20	58.8	58.8	58.8
Planned in a near future (within one year)	5	14.7	14.7	73.5
Once	4	11.8	11.8	85.3
Regularly (e.g. every year or system of continuous awareness)	5	14.7	14.7	100.0
Total	34	100.0	100.0	

Majority of the sample MFIs (64.7%) revealed that changing their products and services due to negative impact on social cohesion or welfare of clients was not a major preoccupation of the MFIs. Only 2.9% of the MFIs studied this issue but they had not incorporated any change in their products and services so far. Again, 32.4% of the sample MFIs studied and changed its products and services due to negative impact on social cohesion or welfare of its clients.

On further investigation, it was found that some MFIs had adopted the following changes:-

(i) Added product specification
(ii) Changed its savings product features 2 times
(iii) Changed products in Meghalaya
(iv) Reduced interest rate
(v) Decided to launch 3rd generation Rickshaw with IIT Guwahati
(vi) Changed individual loans into group loan;
(vii) Stopped monthly loan repayments and introduced flexible repayment schedule for rubber plantation
(viii) Changed loan repayment duration from 6-24 months to 12 months
(ix) Changed from flat interest rate to reducing rate of interest
(x) Stopped taking loan processing fees from clients
(xi) Changed the period of Recurring Deposit from 1 year to 18months/weeks, 24months/weeks, 36months/weeks, 60 months/weeks and also started 2-5 years Fixed Deposit.

Thus, it may be concluded that some of the MFIs are socially responsive but majority (64.7%) of the sample MFIs of Assam are not very socially responsive towards their clients.

Table 5.42: Change of Products and Services due to Negative Impact

	Frequency	Percent	Valid Percent	Cumulative
Not a major preoccupation for the MFI	22	64.7	64.7	64.7
Studied but no changes so far	1	2.9	2.9	67.6
Studied and no problems recorded or changes made after identification of the problem	11	32.4	32.4	100.0
Total	34	100.0	100.0	

Analysing the data further it was found that majority (61.8%) of the sample MFIs did not provide any type of insurance that frees the family from the burden of debt in case of death of the borrower. Only 38.2% of the sample MFIs provided some type of insurance that protected the client's family in case of death of the client. So the above data reveals that there are huge potentials for micro-insurance in Assam and the MFIs are yet to understand their social responsibility towards their clients.

Table 5.43: Insurance For Families' Loan Protection

	Frequency	Percent	Valid Percent	Cumulative
No	13	38.2	38.2	38.2
Yes	21	61.8	61.8	100.0
Total	34	100.0	100.0	

Thus it may be concluded that some MFIs in Assam have started taking interest in micro-insurance to protect borrowers' families from the debt burden in case of death of the borrower, but majority of the MFIs clients' are underinsured.

The data further revealed that majority (76.5%) of the sample MFIs offer specific measures such as rescheduling of the loans in case of natural disaster etc. to their clients.

Table 5.44: Rescheduling of the Loans in Case of Natural Disaster

	Frequency	Percent	Valid Percent	Cumulative
No	8	23.5	23.5	23.5
Yes	26	76.5	76.5	100.0
Total	34	100.0	100.0	

On the other hand, 23.5% of the MFIs did not reschedule the periodic loan repayments when borrowers were affected by any natural disaster. Thus it may be concluded that majority of the MFIs in Assam are flexible in loan repayment duration in case of any natural disaster.

Thus regarding the social responsibility of the MFIs towards their clients, majority of the sample MFIs are found to be flexible in loan repayment duration and helps their clients by offering specific measures such as rescheduling of the loans in case of natural disaster etc. But the study finds that majority of the sample MFIs had not yet conducted any socio-economic studies to assess the situation of the clients and did not provide any type of insurance facility that frees the family from the burden of debt in case of death of the borrower.

5.6.3. Social Responsibility towards the Local Community

This is the third sub-dimension which was used to measure the social performance of the MFIs by assessing the social responsibility of the MFIs towards its local community. The social responsibility towards their local community was measured in terms of four parameters viz., (i) compatibility of MFIs' action with the local culture and values, (ii) MFIs' local employment generation, (iii) MFIs' assistance to the local community through financial supports, and (iv) change of products and services due to negative impact in communities.

The data revealed that majority (58.8%) of the sample MFIs had given much importance on whether its actions were compatible with the local culture and values; and ensure that surveys/studies, or discussions with local authorities, key resource persons from the community, or by means of collecting information at the beginning of launching MFI's microcredit operations was done. On the other hand, 32.4% of the sample MFIs did not take any such specific action. Only 8.8% of the sample MFIs collected such information on a regular basis, like once in every 2 or 3 years. On further investigation, it was found that the MFIs collect the information about the local sentiments by:-

(i) informal local visit & interaction
(ii) sending MFI officials (Field Officer, Area Co-ordinator) to collect important area information
(iii) collecting information from local clients
(iv) conducting a survey
(v) conducting meetings in schools with the senior citizens.

It was also found that after doing these exercises some MFIs understand the local cultures and values and adopted some initiatives like:-

(i) discouraging piggery loan to Muslim community.

(ii) deciding not to disburse any loan for producing local wine.

Thus, it may be concluded that the majority of the sample MFIs of Assam take care that its actions are compatible with the local culture and values.

Table 5.45: Compatibility of MFIs' Action with the Local Culture and Values

	Frequency	Percent	Valid Percent	Cumulative Percent
no specific action	11	32.4	32.4	32.4
Information collected at the beginning	20	58.8	58.8	91.2
Information collected on a regular basis (ex. once every 2 or 3 years)	3	8.8	8.8	100.0
Total	34	100.0	100.0	

An attempt was made to find out whether the MFIs work with local loan officers who can speak the local language and understand the local culture. The data revealed that 100% of the sample MFIs of Assam employ local staff who can speak the local Assamese language and know the local culture. An attempt is also made to measure MFIs' contribution towards its local community through financial support, grants or loans for community projects like schools, hospitals, churches, mosques, temples, etc. The data revealed that majority (58.8%) of the sample MFIs never assisted the local community through financial support, grants or loans for community projects like schools, hospitals, churches, mosques, temples, etc. Moreover, 23.5% of the sample MFIs rarely assisted their local community only once in every three or four years and 2.9% of the MFIs assisted once in every two years. On the other hand, only 14.7% of the sample MFIs were found to be contributing to their local community through financial support, grants or loans. On further investigation, it has been observed that a few MFIs assisted their local communities by providing:-

(i) class room infrastructure in schools like desks and bench
(ii) boundary fencing, plantation, cleaning in schools
(iii) donation in school and college functions
(iv) water filter in the schools, local Namghar (temple)
(v) stipend to girl students for 2 years
(vi) extensive assistance to school students (of 80 schools) in their class tutorial lessons.
(vii) Infrastructures to start junior colleges

(viii) spiritual education to the school students and teaching them moral values.
(ix) beautification of some areas in the public places like traffic police point etc.
(x) health programmes like AIDS awareness for the local community
(xi) land for constructing temple.

Thus it may be concluded that though majority (58.8%) of the MFIs are not assisting its local communities, but some of the MFIs in Assam are assisting their local communities in education, health and religious activities.

Table 5.46: MFIs' Assistance to the Local Community through Financial Supports

	Frequency	Percent	Valid Percent	Cumulative Percent
Never	20	58.8	58.8	58.8
Seldom (only once every 3 or 4 years)	8	23.5	23.5	82.4
Every 2 years	1	2.9	2.9	85.3
Once a year or more	5	14.7	14.7	100.0
Total	34	100.0	100.0	

The data further revealed that for majority (88.2%) of the MFIs, changing its products, services or way of functioning due to negative impact on social cohesion or welfare of the community, is not a major preoccupation. Only 8.8% of the sample MFIs focused on this issue but incorporated no changes so far and 2.9% of the MFIs focused on it but no problems were recorded or changes made after identification of the problem.

Table 5.47: Change of Products and Services due to Negative Impact in Community

	Frequency	Percent	Valid Percent	Cumulative Percent
Not a major preoccupation for the MFI	30	88.2	88.2	88.2
Studied but no changes so far	3	8.8	8.8	97.1
Studied and no problems recorded or changes made after identification of the problem	1	2.9	2.9	100.0
Total	34	100.0	100.0	

Therefore, it may be concluded that majority (88.2%) of the sample MFIs of Assam do not feel the necessity of changing its products, services or way of functioning due to negative impact on social cohesion or welfare of the community.

Therefore, regarding the social responsibility of the sample MFIs towards the local community, the study finds that entire sample MFIs employ local staff who can speak the local Assamese language. Majority (58.8%) of the sample MFIs had given much importance on whether its actions were compatible with the local culture and values; and ensure that surveys/studies, or discussions with local authorities, key resource persons from the community, or by means of collecting information at the beginning of launching MFI's microcredit operations was done. The study finds that majority of the MFIs of the sample MFIs never assisted the local community through financial support, grants or loans for community projects like schools, hospitals, churches, mosques, temples, etc. but some of the MFIs in Assam are assisting their local communities in education, health and religious activities. The study concludes that majority of the sample MFIs of Assam do not feel the necessity of changing its products, services or way of functioning due to negative impact on social cohesion or welfare of the community.

5.7. International Reference

Since the last decade, social audit has gained immense popularity worldwide for public review of the planning, implementation, and effectiveness of microfinance programmes across different countries.

Bédécarrats, Lapenu and Tchala (2010) measured the social performance of 223 institutions in 53 countries as of March 31, 2010 using the SPI tool for taking stock of the social dimension of microfinance practices worldwide. The SPI tool used by Bédécarrats, Lapenu and Tchala (2010) considers twelve sub-dimensions whereas the SPI tool used in this study considers fifteen sub-dimensions of social performance as proposed by Zeller, Lapenu, and Greeley (2003). Table 5.48 highlights the differences between the two studies in the SPI tool.

Thus from the Table 5.48, it is evident that dimension wise there is no difference, but sub-dimesion wise there lies some difference between the SPI tool adopted in the present study and the report of Bédécarrats, Lapenu and Tchala (2010) which have not considered the following three sub-dimensions viz.,

(i) Mission of the MFI (Dimension-1)

(ii) Collateral (Dimension-1), and

(iii) Participation (Dimension-2)

Table 5.48: Differences between the Present Study & Bédécarrats, Lapenu and Tchala (2010)

Dimension of Social Performance	The Present Study	Bédécarrats, Lapenu & Tchala (2010)
	Sub-dimensions of SPI	*Status*
Dimension-1	1. Mission of the MFI	Not Considered
Outreach to the poor and excluded	2. Geographic & Socioeconomic Focus on Client Group	Considered
	3. Tools for Targeting	Considered
	4. Size of Transaction	Considered
	5. Collateral	Not Considered
Dimension-2	6. Range of Services	Considered
Adaptation of the services and products to the target clients	7. Quality of Service	Considered
	8. Non-financial Services accessible to the clients	Considered
	9. Participation	Not Considered
Dimension-3	10. Transparency	Considered
Improvement of social and political capital of the	11. Clients representatives	Considered
	12. Empowerment	Considered
Dimension-4	13. Human resources policy	Considered
Social Responsibility of the institution	14. Social responsibility towards the clients	Considered
	15. Social responsibility towards the local community	Considered

So, it has been seen that there are a few differences in dimension 1 and dimension 2 between the present study and the report of Bédécarrats, Lapenu and Tchala (2010). Considering this difference, a comparison may not be suitable especially under dimension 1 and dimension 2.

Now let us highlight some of the important findings from the report of Bédécarrats, Lapenu and Tchala (2010) which is based on the Micro Banking Bulletin (MBB) issue of December 2009 published by Microfinance Information Exchange.

Table 5.49: Profile of the MFIs Using SPI

	Peers	SPI Base		MBB 09			Peers	SPI Base		MBB 09	
Continent	Africa	66	30%	195	18%	Character Type	Bank	7	3%	0.82	8%
	Asia	19	9%	283	26%		Credit Union	54	24%	182.00	17%
	ECA	5	2%	217	20%		NBFI	33%	15%	3.38	31%
	LAC	123	55%	333	31%		NGO	87%	39%	3.89	36%
	MENA	10	4%	56	5%		Rural B	4	2%	84.00	8%
Age	New	23	11%	191	18%	Scale	Small	75	37%	428.00	36%
	Young	33	16%	203	19%		Medium	49	24%	294.00	34%
	Mature	134	66%	657	63%		Large	48	24%	351.00	30%
	N/A	14	7%	0	0%		N/A	32	16%		

Source: Bédécarrats, Lapenu & Tchala (2010).

Latin American and African institutions dominate the sample (55% and 30% respectively) due to the active involvement of MFIs' apexes and socially responsible investment funds in these regions. The following table illustrates the distribution of the SPI scores obtained worldwide.

Table 5.50: Distribution of SPI scores

	N	%	Cumulative
<35%	14	6.9	6.9
35-40%	11	5.4	12.4
40-45%	11	5.4	17.8
45-50%	22	10.9	28.7
50-55%	30	14.9	43.6
55-60%	19	9.4	53.0
60-65%	29	14.4	67.3
65-70%	28	13.9	81.2
70-75%	22	10.9	92.1
>75%	16	7.9	100.0
Total	202	100.0	

Source: Bédécarrats, Lapenu & Tchala (2010)

This distribution is due to the fact that the SPI tool is standardized. It aims to be a relatively comprehensive assessment of the different dimensions of social performance. Fewer than one in eight MFIs obtain very low results (less than 40%). Similarly, fewer than one in twelve score over 75%. Bédécarrats, Lapenu and Tchala (2010) reported that, excluding the bottom and top quartiles, half of the MFIs score between 49% and 68% with median of 57% and the average of 58%. Now referring these figures with the SPI scores of the sample MFIs, we see that the average score obtained by the sample MFIs is 49% whereas the international average score is 58%.

MFIs are not expected to score full points in every aspect; rather, results should reflect the institution's self-defined mission and strategy. For example, urban banks may prioritize a diverse product mix and social responsibility, while a rural cooperative will focus on targeting and participation. This is why it is so important to refine analysis beyond the aggregated score; each dimension should be analyzed against the institution's strategic priorities. Moreover, comparing scores is only useful when institutions are part of the same peer group. The following table shows the SPI scores obtained by the MFIs of the different continents under the four dimensions of social performance.

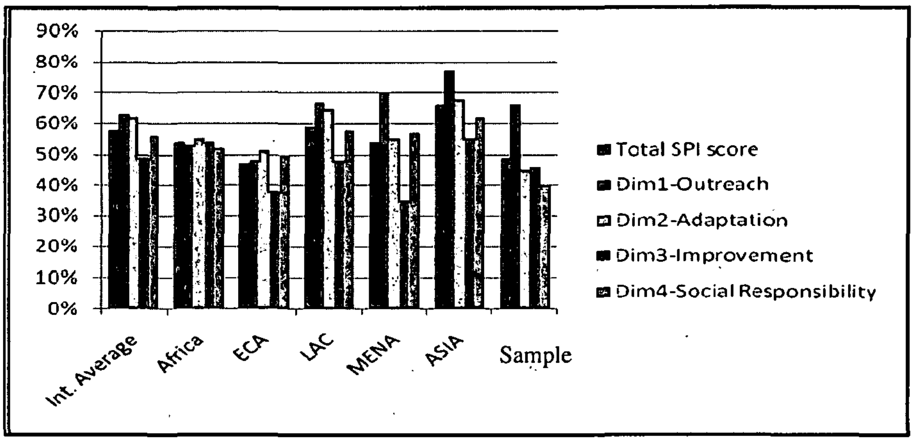
Table 5.51: SPI Scores of Different Continents versus SPI Score of the Sample MFIs of Assam

	Total (N=202)	Africa (60)	ECA (4)	LAC (114)	MENA (10)	Asia (14)	Sample MFIs of Assam, (34)
Total SPI score	58%	54%	47%	59%	54%	66%	49%
Dim1-Outreach	63%	53%	48%	67%	70%	77%	66%
Dim2-Adaptation	62%	55%	51%	65%	55%	68%	45%
Dim3-Improvement	49%	54%	38%	48%	35%	55%	46%
Dim4-Social Responsibility	56%	52%	50%	58%	57%	62%	40%

Source: Bédécarrats, Lapenu & Tchala (2010) and Primary Data

Although the same SPI tool is used to find the social performance of MFIs in the five continents, the socio-economic norms and values vary from place to place. From the above table, it is seen that the Asian MFIs outperformed the MFIs of the other continents of the world. As already mentioned that due to the differences in the bases of sub-dimensions, it would not be very meaningful to compare the social performance of the sample MFIs of Assam with that of SPI Scores of Different Continents especially under dimension 1 and dimension 2. Just for reference, it is seen that the average SPI score (49%) of the sample MFIs is not only lower than the Asian average but also lower than the other continents worldwide. Moreover, it is seen that dimension wise also the average SPI scores of the sample MFIs is lower than Asian MFIs. Analysing the data further we find that the social performance of the MFIs in terms of adaptation of the services and products to the target clients (Dimension-2) and social responsibility (Dimension-4) need to be improved significantly as the SPI score of the sample MFIs under these two dimensions is the lowest among the five continents.

Figure 5.12: Global SPI Scores vs. Sample MFIs' SPI Scores



However, it is encouraging to note that the sample MFIs outperformed the ECA & MENA countries under the third dimension viz., improvement of social and political capital of the clients of the MFIs. Therefore it may be concluded that the social performance of the sample MFIs is on the lower side considering the international level findings.

5.8. Chapter Summary

This chapter summarizes the social performance of the sample MFIs using the SPI tool developed by Zeller, Lapenu and Greeley in 2003. As per the SPI tool, social performance was measured by 15 indicators under four dimensions viz., (i) outreach to the poor & excluded - D_1, (ii) adaptation of the services and products to the target clients - D_2, (iii) improvement of social and political capital of the clients - D_3, and (iv) social responsibility of the institution - D_4. The summary of the social performance of the sample MFIs is given below. The average social performance score of the sample MFIs' of Assam is found to be 49 out of 100 with maximum of 78 and minimum of 31. The overall sample data reveals that the average score of the sample MFIs for the first performance dimension, i.e., outreach to the poor and excluded is 17 out of 25. Therefore it may be concluded that the average social performance of the sample MFIs of Assam is higher in terms of outreach to the poor and excluded (66%) as compared to the other three dimensions viz., adaptation of the services and products to the target clients (45%), improvement of social and political capital of the clients (46%), and social responsibility of the institution (60%).

Chapter 6

Dynamics of the MFIs

CHAPTER 6: DYNAMICS OF THE MFIs

There are different types of MFIs functioning in the state of Assam and the operating mechanisms of these MFIs differ from organization to organization. The players in the Microfinance sector can be classified under three main groups viz., (a) The SHG-Bank Linkage Model, accounting for about 58% of the outstanding loan portfolio, (b) Non-Banking Finance Companies, accounting for about 34% of the outstanding loan portfolio, and (c) Others including trusts, societies, etc., accounting for the balance 8% of the outstanding loan portfolio (Malegam Committee, 2011). To fulfill the third objective of this study, an attempt is made here to explain the dynamics of the sample MFIs in terms of three parameters viz., (i) assessment of the creditworthiness of the clients, (ii) microfinance delivery mechanism, and (iii) microfinance monitoring system.

6.1. Assessing Creditworthiness of the Clients by MFIs

MFIs differ from formal banks in assessing creditworthiness of the clients. This is a challenging task as the KYC (Know Your Clients) norms are not applicable for the MFIs as required in the formal banking system. In most cases, MFIs lend to the poor without any collateral. In the absence of any government regulations, different MFIs adopt different methodologies to assess creditworthiness of its clients. An attempt has been made to understand this phenomenon in terms of seven variables viz., (i) categories of clients, (ii) requirements to open recurring deposit/fixed deposit/loan account, (iii) documents required to open recurring deposit/fixed deposit/loan account, (iv) conditions for availing a loan, (v) collateral requirements, (vi) assessment of the clients for loan, and (vii) levels of assessment.

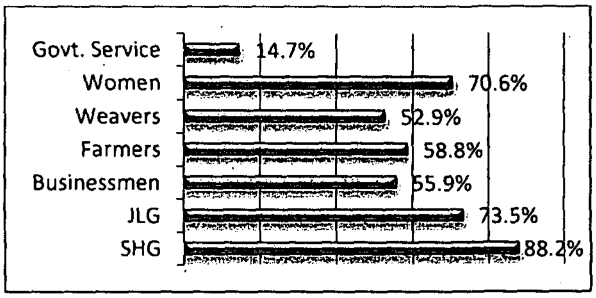
6.1.1. Categories of Clients

The client profile of the sample MFIs comprise of Self Help Groups (SHGs), Joint Liability Groups (JLGs), individual businessmen, farmers, weavers, women and government service holders.

Table 6.1: Categories of Clients

	Frequency	Percent
SHG	30	88.2
JLG	25	73.5
Businessmen	19	55.9
Farmers	20	58.8
Weavers	18	52.9
Women	24	70.6
Govt. Service Holders	5	14.7

Figure 6.1: Categories of Clients

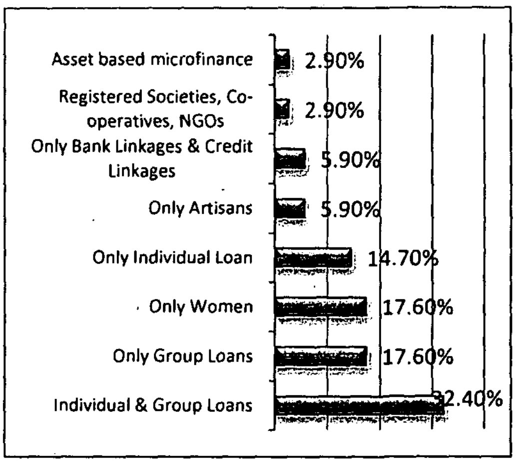


It has been observed that majority of the sample MFIs prefer SHGs (88.2%), JLGs (73.5%) and women (70.6%) as their clients. Surprisingly the data also reveals that some MFIs also prefer government service holders (14.7%) as their client.

Table 6.2: Type of Loans

	Frequency	Percent
Individual & Group Loans	11	32.4
Only Group Loans	6	17.6
Only Women	6	17.6
Only Individual Loan	5	14.7
Only Artisans	2	5.9
Only Bank Linkages & Credit Linkages	2	5.9
Registered Societies, Co-operatives, NGOs	1	2.9
Asset based microfinance	1	2.9
Total	34	100.0

Figure 6.2: Type of loans



It has been found that majority (32.4%) of the sample MFIs are providing both individual and group loans to their clients. 17.6% of the sample MFIs disburse loan only to women. Only group loans are disbursed by 17.6% of the sample MFIs whereas 14.7% of the sample MFIs provides only individual loans. Moreover, few (2.9%) Sample MFIs also provide asset based loans and institutional loans to NGOs registered in Assam.

6.1.2. Requirements to Open a Recurring/Fixed Deposit/Loan Account

As discussed in chapter five, 35% of the sample MFIs offer savings account facility to their clients. Majority (67.6%) of the sample MFIs do not have any pre-requisites for opening a recurring/fixed deposit/loan account. 20.6% of the sample MFIs require their clients to be its member prior to opening a recurring/fixed deposit/loan account. Only 5.9% of the sample MFIs required a membership of atleast six months as well as a bank account to open a savings or a loan account with the MFI.

Table 6.3: Prerequisites for R.D/Fixed/Loan a/c

	Frequency	Percent
No Condition	23	67.6
Must be a Member	7	20.6
6 months old membership	2	5.9
Must have a bank a/c	2	5.9

On further investigation, it was seen that MFIs had certain preferences while selecting their clients. They are:

(a) The client must be a known person in the community with good financial track record;
(b) The client must not hold a bank account;
(c) The client must be a permanent local resident;
(d) The client must be a member of the SHGs or JLGs formed by the particular MFI itself;
(e) The client must show willingness to save Rs.5 or Rs.10 per day.

Therefore it may be concluded that majority of the sample MFIs of Assam are flexible in opening a recurring/fixed deposit/loan account and welcome the beneficiaries without much entry restrictions in contrast to the formal banking and financial institutions.

6.1.3. Documents Required for Opening a Recurring /Fixed deposit/Loan Account

It has been observed that the three most important documents required by the MFIs from their clients are – photograph (64.7%), address proof (50%) and Panchayat certificate[6] (44.1%). Therefore, it may be concluded that the documentation required by the sample MFIs of Assam is very simple and lowers the barriers for clients to

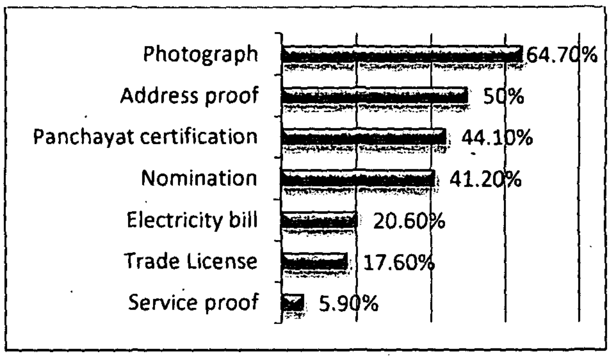
[6]A certificate/declaration given by the Panchayat President to the residents of the village stating that the holder of the certificate is a permanent resident of the village/local community.

enter the financial system. This is indeed a boon for people who belong to the remote rural areas and do not have much knowledge of banking transactions.

Table 6.4: Documentation Required

	Frequency	Percent
Photograph	22	64.7
Address proof	17	50.0
Panchayat certification	15	44.1
Nomination	14	41.2
Electricity bill	7	20.6
Trade License	6	17.6
Service proof	2	5.9

Figure 6.3: Documentation Required



On further investigation, it was seen that besides the documents mentioned above, some MFIs also prefer other documents/arrangement like:-

(a) Any age proof/ Birth certificate
(b) Having his/her name included in the electoral roles (i.e., Voter's list)
(c) Ration card
(d) Bank passbook
(e) Plain paper application with signature on revenue stamp
(f) Land documents
(g) For landless persons, 5 guarantors are required
(h) Proceedings of SHGs, JLGs, resolution copy, members agreement copy, group guarantee promise copy
(i) One family member photograph, Permanent Account Number (PAN), Bank account statement, Ward Commissioner's certificate
(j) For known people of the MFI officials, only filling up of the loan application form is required
(k) Lease agreement in case of a shop
(l) Survey is conducted in the clients' locality to find the repayment capacity and other financial liability of the person.

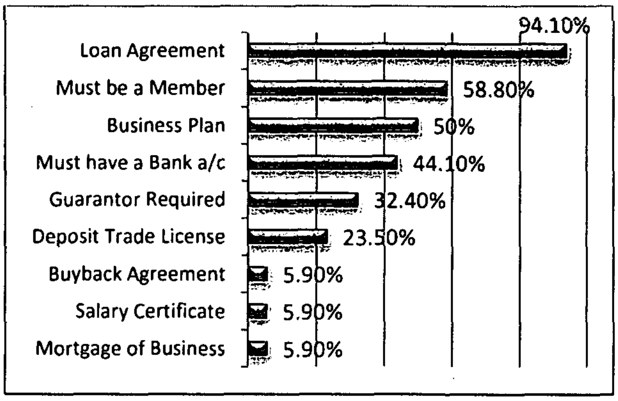
6.1.4. Conditions for Availing a Loan

The results of the survey indicate that majority (94.1%) of the MFIs require a loan agreement with the client for loan disbursement. Additional conditions that need to be fulfilled by clients to become eligible for loan are, (a) must be a member of the MFI, (b) submit a business plan, (c) have a Bank account, (d) produce a guarantor, (e) deposit a trade license etc.

Table 6.5: Requirements of Loan Eligibility

	Frequency	Percent
Loan Agreement	32	94.1
Must be a Member	20	58.8
Business Plan	17	50.0
Must have a Bank a/c	15	44.1
Guarantor Required	11	32.4
Deposit Trade License	8	23.5
Mortgage of Business	2	5.9
Salary Certificate	2	5.9
Buyback Agreement	2	5.9

Figure 6.4: Requirements of Loan Eligibility



On further investigation it was found that besides the above loan eligibility conditions, some MFIs insist on a few other points:

(a) The client must have a Recurring Deposit account that is between 3 months to a year old with the MFI
(b) The client must submit a plain paper loan application
(c) The client must produce some eye witness at the time of loan disbursement
(d) The client needs to mortgage the deposit account with the MFI
(e) The client's household income must be less than Rs.50,000 per annum
(f) The client must belong the SHG/JLG formed by the MFI itself
(g) The client needs to produce joint loan application by SHG/JLG members
(h) Internal loan transactions among the SHG/JLG members
(i) The client must be a three/six months old SHG/JLG
(j) Women from rural areas are given preference
(k) The client must be from the same locality/within 0.5 km radius
(l) The client must seek the loan for income generating activity
(m) The client must have SBI Core Banking account

(n) The client must be a permanent resident

(o) The client needs to mortgage the loan asset

(p) The client must deposit copy of land documents to the MFI.

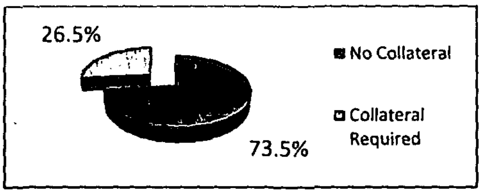
6.1.5. Collateral Requirements

Low-income borrowers often do not have assets which they can offer as collateral, and it is important to ensure that in the event of default, the borrower does not lose possession of assets which s/he may need for her/his continued existence. The recent Malegam Committee appointed by the RBI submitted its report in January 2011 recommended that all loan should be without collateral (para 5.9 b iv). The data reveals that 73.5% of the sample MFIs do not require any collateral whereas 26.5% of the MFIs need collateral before disbursing loan to their clients.

Table 6.6: Requirement of Collateral by MFIs

	Frequency	Percent
No Collateral	25	73.5
Collateral Required	9	26.5
Total	34	100.0

Figure 6.5: Requirement of Collateral by MFIs

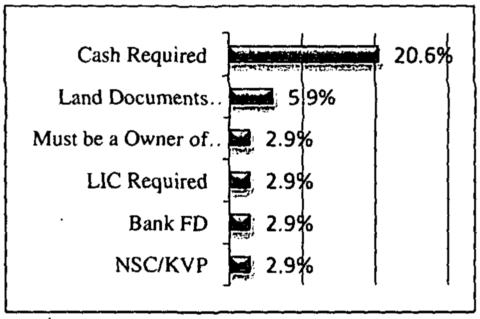


On further investigation, it was found that majority (20.6%) of the MFIs prefer cash as a collateral for disbursing any loan to their clients. This cash represents the balance amount in the savings account of the clients maintained with the particular MFI. The maximum loan amount is decided based on the savings account balance of the client. The data shows that the maximum loan amount varies from 10% of the savings balance to 90% of the savings account balance in the first loan cycle. Some MFIs also provide double the savings amount in the second or third loan cycle. It has been found that the other collaterals required by the sample MFIs are land documents, NSC/KVP, Bank FD, LIC Policy.

Table 6.7: Nature of Collateral Required

	Frequency	Percent
Cash Required	7	20.6
Land Documents Required	2	5.9
NSC/KVP	1	2.9
Bank FD	1	2.9
LIC Required	1	2.9
Must be a Owner of a Plot of Land	1	2.9

Figure 6.6: Nature of Collateral Required



Therefore it may be concluded that majority of the sample MFIs do not require any collateral to provide loan to their clients. A few MFIs still require collateral preferably cash in the form of savings account balance maintained with the particular MFI.

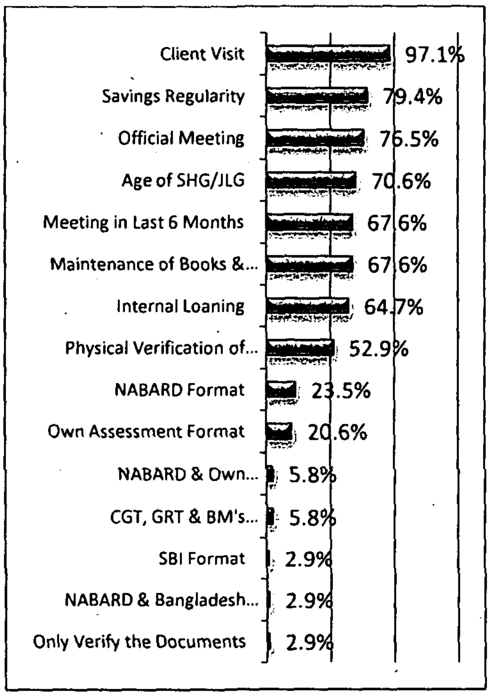
6.1.6. Assessment of the Clients for Loan

MFIs belong to an unorganized sector which lacks proper and uniform microfinance practices. The ways of client assessment system also varies from MFIs to MFIs. The robustness of the assessment mechanism of the clients is reflected in the repayment rates of the MFI. The results of the survey indicate that majority (97.1%) of the sample MFIs assess the creditworthiness of their clients by visiting the client's place. Besides the client visit, other important client assessment criteria for loan disbursement are (a) savings regularity of the client, (b) official meetings among the group members of SHG/JLG, (c) age of the SHG/JLG, (d) maintenance of books and accounts of the SHG/JLG, (e) number of meetings held by the SHG/JLG members in the last 6 months, (f) number of internal loans among the members in the last 6 months, and (g) physical verification of clients' assets.

Table 6.8: Client Assessment for Loan

	Frequency	In %
Client Visit	33	97.1
Savings Regularity	27	79.4
Official Meeting	26	76.5
Age of SHG/JLG	24	70.6
Maintenance of Books & Accounts	23	67.6
Meetings Held in the Last Six Months	23	67.6
Internal Loaning	22	64.7
Physical Verification of Client's Assets	18	52.9
NABARD Format	8	
Own Assessment Format	7	20.6
CGT, GRT & BM's Interview	2	5.8
NABARD & Own Assessment Format	2	5.8
Only Verify the Documents	1	2.9
NABARD & Bangladesh ARHI Format	1	2.9
SBI Format	1	2.9

Figure 6.7: Client Assessment for Loan



On further investigation, it has been observed that 20.6% of the MFIs use their own client assessment format whereas 5.8% of the sample MFIs use NABARD client assessment format with some modifications. Moreover, 5.8% of the sample MFIs use different client assessment mechanism like CGT (Compulsory Group Training), GRT (Group Recognition Test) & BM's (Branch Manager) Interview. Some MFIs are also found to combine client assessment system of NABARD as well as Bangladesh's credit evaluation system to assess the creditworthiness of their clients. Therefore, it may be concluded that the sample MFIs are adopting different criteria to assess their clients and majority of the MFIs prefer to visit the client's place to assess the creditworthiness.

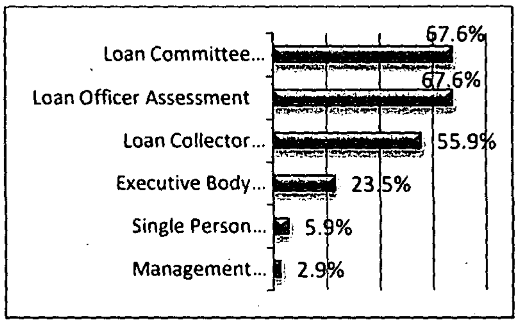
6.1.7. Levels of Assessment

The results of the survey indicate that majority (67.6%) of the sample MFIs have their clients assessed by their loan officers as well as through the MFI's loan committee. Moreover, 55.9% of the sample MFIs depend on their loan collector or field coordinator or agent to assess the creditworthiness of their clients. 23.5% of the sample MFIs depends on their executive body's assessment to decide upon the sanction of the loan to their clients. Only in 5.9% of the sample MFIs, a single person like President or Secretary decides on the sanction of the loan.

Table 6.9: Levels of Assessment

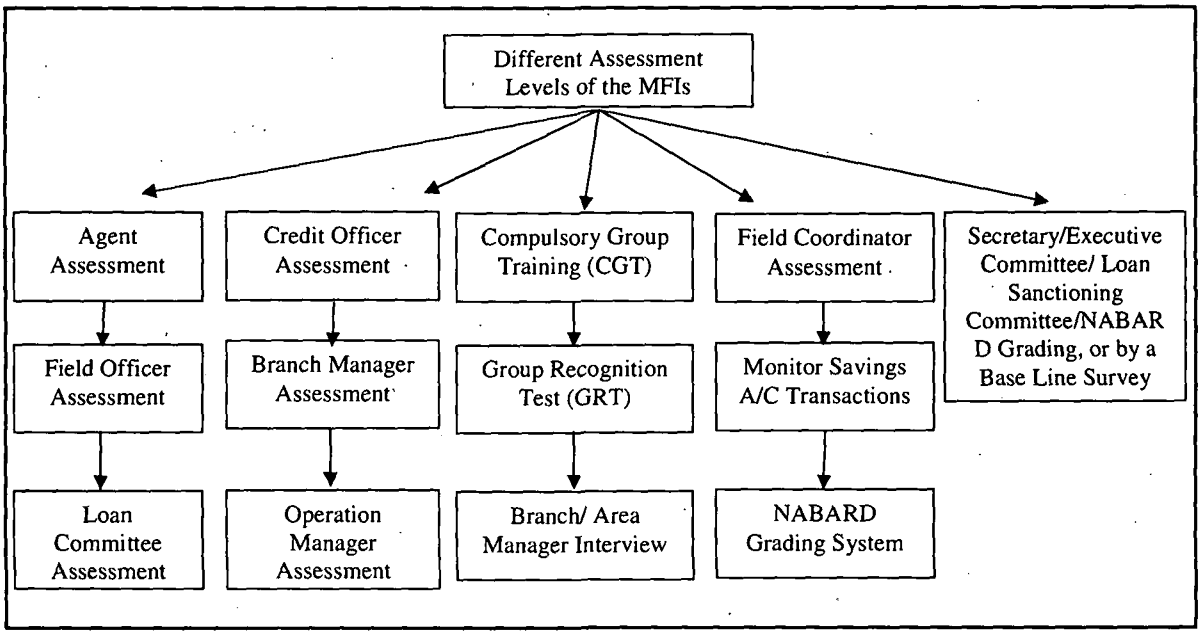
	Frequency	In %
Loan Officer Assessment	23	67.6
Loan Committee Assessment	23	67.6
Loan Collector Assessment	19	55.9
Executive Body Assessment	8	23.5
Single Person Assessment	2	5.9
Management Committee Assessment	1	2.9

Figure 6.8 Levels of Assessment



The data further revealed that majority (50.0%) of the sample MFIs took the final decision on loan sanction at three assessment levels in the MFI. In 20.6% of the MFIs, the final loan sanctioning decision is taken at two levels like, at field officer and Branch Manager Level. The following diagram shows the different levels of assessments of the clients of the sample MFIs.

Figure 6.9: Different Levels of Client Assessment of the Sample MFIs



From Figure 6.9, it has been seen that for some MFIs, these three levels of assessment are – (i) agent, field officer and loan committee meeting; or (ii) credit officer, branch manager and operation manager; or (iii) CGT, GRT & Branch Manager or Area Manager; (iv) Field Coordinator, Monitor savings a/c transaction, and NABARD grading. For some MFIs, loan sanctioning procedure is very simple and final decision about the loan sanction is taken at only one assessment level like, by secretary, or by executive committee, or by loan sanctioning committee, or by NABARD grading, or by a Base Line Survey.

Table 6.10: Levels of loan Assessment

	Frequency	Percent
Loan assessment at 1 Level	10	29.4
Loan assessment at 2 Levels	9	20.6
Loan assessment at 3 Levels	15	50.0
Total	34	100.0

Therefore, it may be concluded that the loan sanctioning procedure of the sample MFIs is very simple and majority of the final decision on loan sanction is predominantly assessed by the sample MFIs at three levels.

Thus, regarding the assessment of the creditworthiness of the clients by the MFIs, the study finds that majority of the sample MFIs prefer SHGs, JLGs and women as their clients. 35% of the sample MFIs offer savings account facility to their clients which violates the RBI regulations. Majority of the sample MFIs of Assam are flexible in opening a recurring/fixed deposit/loan account and welcome the beneficiaries without much entry restrictions in contrast to the formal banking and financial institutions. The documentation required by the sample MFIs of Assam is very simple and the three most important documents required by the MFIs from their clients are – photograph, address proof, and Panchayat certificate. Majority of the sample MFIs do not require any collateral to provide loan to their clients and the loan sanctioning procedure of the MFIs is very simple and majority of the final decision on loan sanction is predominantly assessed by the sample MFIs at three levels.

6.2. Microfinance Delivery Mechanisms of MFIs

To understand the operating dynamics of the MFIs, here an attempt is made to illustrate the microfinance delivery mechanism adopted by the different sample MFIs. The microfinance delivery system is explained in terms of twelve variables viz., (i) assistance in loan application, (ii) average time required for opening a demand deposit, (iii) average time of loan disbursement, (iv) sanctioning authority of the loan, (v) size of loan amount, (vi) repayment time, (vii) guarantor's presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

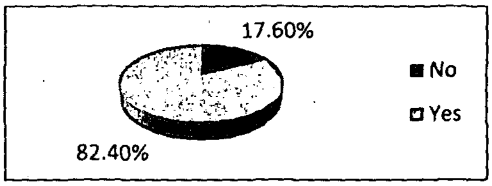
6.2.1. Assistance in Loan Application

The results of the survey indicate that majority (82.4%) of the sample MFIs need to help their clients in filling up the loan application form.

Table 6.11: Assistance in Loan Application

	Frequency	Percent	Cumulative Percent
No	6	17.6	17.6
Yes	28	82.4	100.0
Total	34	100.0	

Figure 6.10: Assistance in Loan Application



Therefore, it may be concluded that the sample MFIs are providing required assistance to their clients as most of them belong to remote area and are not aware of the of financial transactions.

6.2.2. Time Required for Opening a Demand Deposit

The results of the survey indicate that the average time required by the MFIs to open a Recurring Deposit account is 1.11 days with standard deviation of 0.33 days. Moreover, out of 34 MFIs, only 9 MFIs offer Recurring Deposit account to their clients which represent 26.5% of the total sample MFIs.

Table 6.12: Average Time Required for Opening a RD Account

Days	Frequency	Percent	Valid Percent	Cumulative Percent
1	8	23.5	88.9	88.9
2	1	2.9	11.1	100.0
Total MFIs with RD a/c facility	9	26.5	100.0	
Total MFIs without RD a/c facility	25	73.5		
Total	34	100.0		

The sample survey reveals that the average time required by the MFIs to open a Fixed Deposit account is 1.5 days with standard deviation of 0.71 days. Moreover, out of 34 MFIs, only 2 MFIs offer Fixed Deposit account to their client which represents only 5.9% of the total sample MFIs.

Table 6.13: Average Time Required for Opening a FD Account

Days	Frequency	Percent	Valid Percent	Cumulative Percent
1	1	2.9	50.0	50.0
2	1	2.9	50.0	100.0
Total MFIs with FD a/c	2	5.9	100.0	
Total MFIs without FD a/c facility	32	94.1		
Total	34	100.0		

Further, it has been found that the average time required by the MFIs to open a Savings Deposit account is 4 days with standard deviation of 7.10 days. Moreover, out of 34 MFIs, only 7 MFIs offer Savings Deposit account to their clients which represent 20.6% of the total sample MFIs.

Table 6.14: Average Time Required for Opening a Savings Deposit Account

Days	Frequency	Percent	Valid Percent	Cumulative Percent
1	5	14.7	71.4	71.4
3	1	2.9	14.3	85.7
20	1	2.9	14.3	100.0
Total MFIs with Savings a/c	7	20.6	100.0	
Total MFIs without RD a/c facility	27	79.4		
Total	34	100.0		

Thus, it is seen that MFIs are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a Recurring Deposit, Fixed Deposit or a Savings Deposit account with the MFIs. As per the government regulation, MFIs are not allowed to accept deposit in any form from the public. By having provisions for SD/RD/FD, some of the sample MFIs of Assam are violating the government regulations. While discussing the issue with the MFI official during the primary survey, they opined that there is a huge demand and clients are pressuring the MFIs not to discontinue this service.

6.2.3. Time Required for Loan Disbursement

The time taken to disburse a loan basically depends on the availability of fund of the MFI and also the official formalities. The results of the survey indicate that the average time required by the MFIs to disburse a loan is approximately 27 days with standard deviation of around 43 days.

Table 6.15: Average Time of a Loan Disbursement

Days	Frequency	Percent	Valid Percent	Cumulative Percent
2	2	5.9	5.9	5.9
3	3	8.8	8.8	14.7
7	7	20.6	20.6	35.3
8	1	2.9	2.9	38.2
10	2	5.9	5.9	44.1
12	1	2.9	2.9	47.1
15	8	23.5	23.5	70.6
20	2	5.9	5.9	76.5
30	3	8.8	8.8	85.3
42	1	2.9	2.9	88.2
90	1	2.9	2.9	91.2
120	1	2.9	2.9	94.1
150	1	2.9	2.9	97.1
180	1	2.9	2.9	100.0
Total	34	100.0	100.0	

On further investigation, the data reveals that 47.1% of the sample MFIs provide emergency loan to their clients for medical, education or business purposes. The average time to disburse an emergency loan is approximately 3 days with a standard deviation of around 2 days.

Table 6.16: Average Time of an Emergency Loan Disbursement

Days	Frequency	Percent	Valid Percent	Cumulative Percent
1	9	26.5	56.2	56.2
2	1	2.9	6.2	62.5
3	1	2.9	6.2	68.8
5	2	5.9	12.5	81.2
7	3	8.8	18.8	100.0
Total MFIs with Emergency Loan Facility	16	47.1	100.0	
Total MFIs without Emergency Loan Facility	18	52.9		
Total	34	100.0		

Therefore, it may be concluded that the sample MFIs are flexible in understanding the genuine requirements of their clients and majority (68.8%) of the sample MFIs disburse emergency loan within 1 to 3 days without much of official formalities.

6.2.4. Sanctioning Authority of the Loan

It has been observed that for 79.4% of the sample MFIs, the loan sanctioning authority is a committee. The committee names vary from MFI to MFI. The different names of these committees are - Area Coordinators Committee, Credit Committee, Executive Committee, Governing Body, Loan Sanctioning/Disbursement Committee, Loan Processing Unit, or Microfinance Unit.

Table 6.17: Sanctioning Authority of the Loan

	Frequency	Percent
A Single Person	7	20.6
A Committee	27	79.4
Total	34	100.0

On the other hand, for 20.6% of the sample MFIs, the loan sanctioning authority is a single person viz., Area Manager, Branch manager, Junior Operation Manager, Chief Manager, or Secretary.

6.2.5. Size of Loan Amount

Size of the loan of any financial institution represents the depth of the loan outreach. It is important to restrict the size of individual loans, as larger loans can lead to over-borrowing, diversion of funds and huge financial burden because of large size of repayment installments which may be beyond the repayment capacity of the borrower.

Currently in India, most MFIs give individual loans which are between Rs. 10,000 and Rs. 15,000. However, some large NBFCs also give larger loans, even in excess of Rs.50,000 for special purposes like micro-enterprises, housing and education (Malegam Committee Report, 2011). The descriptive statistics of the three categories of loan i.e., SHG, JLG and Individual loan given by the sample MFIs is given below.

Table 6.18: Descriptive Statistics on Loan Size of SHG, JLG & Individual Loan

		SHG Loan		JLG Loan		Individual Loan	
		Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
N	MFIs With (Nos.)	31	31	25	25	21	21
	MFIs Without (Nos.)	3	3	9	9	13	13
Mean (Rs.)		2403	16225	3180	24480	2838	53333
Median (Rs.)		2000	10000	3000	20000	3000	40000
Mode (Rs.)		1000	10000	5000	10000	5000	50000
Std. Deviation (Rs.)		1556	11703	1670	17979	1924	44758.61
Minimum (Rs.)		500	3000	1000	5000	100	10000
Maximum (Rs.)		5000	50000	5000	70000	5000	200000

The data reveals that the average minimum size of individual member SHG loan amount is Rs. 2403 and maximum is Rs. 16,225. Generally SHGs (Self Help Groups) comprise of 10 to 20 members in the same locality. So one SHG of 15 members may get a minimum loan of Rs. 36,045 and maximum up to Rs. 2,43,375.

The majority (25.8%) of the sample MFIs specified the average minimum individual SHG loan as Rs. 1000 and 29% of the MFIs specified the average maximum individual SHG loan of Rs. 10,000. Regarding the maximum size of the individual SHG loan amount, from Table 6.20, it is found that majority (93.55%) of the sample MFIs provide individual SHG loan amount of less than Rs.35,000.

Table 6.19: Minimum Size of Individual SHG Loan

Size of Individual SHG Loan (In Rs.)	Frequency	In %	Valid Percent
500	4	11.8	12.9
1000	8	23.5	25.8
1500	1	2.9	3.2
2000	3	8.8	9.7
2500	1	2.9	3.2
3000	6	17.6	19.4
4000	3	8.8	9.7
4500	1	2.9	3.2
5000	4	11.8	12.9
MFIs with SHG Loan	31	91.2	100.0
MFIs without SHG Loan	3	8.8	
Total	34	100	

Table 6.20: Maximum Size of Individual SHG Loan

Size of Individual SHG Loan (In Rs.)	Frequency	In %	Valid Percent
3000	1	2.9	3.2
5000	5	14.7	16.1
6000	1	2.9	3.2
10000	9	26.5	29.0
15000	2	5.9	6.5
20000	6	17.6	19.4
24000	1	2.9	3.2
25000	3	8.8	9.7
30000	1	2.9	3.2
50000	2	5.9	6.5
MFIs with SHG Loan	31	91.2	100.0
MFIs without SHG Loan	3	8.8	
Total	34	100.0	

A JLG (Joint Liability Group) is smaller in size and generally consists of 2 to 5 members of the same locality. The average minimum size of individual member JLG loan amount was found to be Rs. 3180 and maximum is Rs. 24,480. So one JLG having 5 members may get an average minimum loan amount of Rs. 15,900 and maximum of Rs. 1,22,400.

Table 6.21: Minimum Size of Individual JLG Loan

Size of Individual JLG Loan (In Rs.)	Frequency	In %	Valid Percent
1000	7	20.6	28.0
1500	1	2.9	4.0
2500	1	2.9	4.0
3000	4	11.8	16.0
4000	3	8.8	12.0
4500	1	2.9	4.0
5000	8	23.5	32.0
MFIs with JLG Loan	25	73.5	100.0
MFIs without JLG Loan	9	26.5	
Total	34	100.	

Table 6.22: Maximum Size of Individual JLG Loan

Size of Individual JLG Loan (In Rs.)	Frequency	In %	Valid Percent
5000	1	2.9	4.0
8000	1	2.9	4.0
10000	8	23.5	32.0
15000	2	5.9	8.0
20000	3	8.8	12.0
24000	1	2.9	4.0
25000	1	2.9	4.0
30000	1	2.9	4.0
40000	2	5.9	8.0
50000	4	11.8	16.0
70000	1	2.9	4.0
MFIs with JLG Loan	25	73.5	100.0
MFIs without JLG Loan	9	26.5	
Total	34	100.	

The majority (32%) of the sample MFIs specified the average minimum individual JLG loan as Rs. 5000 and the average maximum individual JLG loan as Rs. 10,000. Regarding the maximum size of the individual JLG loan amount, from Table 6.22, it is found that majority (72%) of the sample MFIs provide individual JLG loan amount of less than Rs.35,000.

Similarly, the average minimum size of individual loan amount is Rs. 2838 and maximum is Rs. 53,333. The majority (38.1%) of the sample MFIs specified the average minimum individual loan of Rs. 5000 and 23.8% of the MFIs specified the average maximum individual loan of Rs. 50,000. Regarding the maximum size of the individual loan amount, from Table 6.24, it is found that majority (52.38%) of the sample MFIs provide individual loan amount of more than Rs.35,000.

Table 6.23: Minimum Size of Individual Loan

Size of Individual Loan (In Rs.)	Frequency	In %	Valid Percent
100	1	2.9	4.8
500	1	2.9	4.8
1000	7	20.6	33.3
3000	4	11.8	19.0
5000	8	23.5	38.1
MFIs with Ind. Loan	21	61.8	100.0
MFIs without Ind. Loan	13	38.2	
Total	34	100.	

Table 6.24: Maximum Size of Individual Loan

Size of Individual Loan (In Rs.)	Frequency	In %	Valid Percent
10000	1	2.9	4.8
15000	1	2.9	4.8
20000	2	5.9	9.5
25000	3	8.8	14.3
30000	3	8.8	14.3
40000	1	2.9	4.8
50000	5	14.7	23.8
100000	4	11.8	19.0
200000	1	2.9	4.8
MFIs with Ind. Loan	21	61.8	100.0
MFIs without Ind. Loan	13	38.2	
Total	34	100.0	

Thus, it has been observed that the average size of the individual SHG loan ranges from a minimum amount of Rs.2,403 to a maximum of Rs.16,225; average size of the individual JLG loan ranges from a minimum amount of Rs.3180 to a maximum of Rs.24,480; and the average size of the individual loan ranges from a minimum amount of Rs.2838 to a maximum of Rs.53333. The recent Malegam Committee (2011) recommended that the size of an individual loan should be restricted to Rs.25,000. The Reserve Bank of India in a guideline published on March 3, 2011 increased this amount to Rs. 35,000. The present study finds that majority (93.55%) of the sample MFIs provide individual SHG loan amount of less than Rs.35,000 as well as majority (72%) of the sample MFIs provide individual JLG loan amount of less than Rs.35,000. But majority (52.38%) of the sample MFIs provide individual loan amount of more than Rs.35,000 which is above the prescribed limit of the RBI.

Therefore, it may be concluded that the majority of the average SHG and JLG loan size of the sample MFIs is less than Rs.35,000 and conforms to the Reserve Bank of India microfinance guidelines (published on March 3, 2011) but the majority of the individual loan size is higher than the benchmark set by the RBI. As the individual loan size is higher, it is strongly suggested that the sample MFIs of Assam must provide loan below Rs.35,000 which qualifies as a microfinance loan.

6.2.6. Repayment Time

MFIs normally give loans which are repayable within 12 months irrespective of the amount of the loan (Malegam Committee, 2011). However, the larger the loan, the larger the amount of the repayment installment, and a large installment may strain the repayment capacity of the borrower and result in multiple borrowing. At the same time, if the repayment installment is too small, there would be surplus cash available with the borrower. This surplus amount might be directed to some other uses and not in repaying the due loan amount. The loan repayment time prescribed by the MFIs for their clients varies from MFI to MFI. Below the descriptive statistics of the loan repayment time offered by the sample MFIs is given below.

Table 6.25: Loan Repayment Time Specified by the MFIs

	Minimum Time in Months	Maximum Time in Months
Mean	9.71	18.65
Median	12.00	12.00
Mode	12.00	12.00
Standard Deviation	4.78	10.22
Minimum	1.00	10.00
Maximum	18.00	48.00

Table 6.25 shows that the minimum loan repayment time specified by the sample MFIs is 1 month and maximum is 48 months. Analysing further, it has been observed that the average minimum loan repayment time specified by the sample MFIs is approximately 10 months and maximum average repayment time is nearly 19 months. The data reveals that the majority (44.1%) of the sample MFIs' minimum loan repayment time specified for their clients is 12 months and 38.2% of the sample MFIs

revealed that the maximum loan repayment specified by them is also 12 months. Some MFIs offer weekly repayment option to their clients also.

Table 6.26: Minimum Loan Repayment Time

Months	Frequency	Percent	Valid Percent
1	5	14.7	14.7
3	2	5.9	5.9
6	2	5.9	5.9
10	3	8.8	8.8
11.5	4	11.8	11.8
12	15	44.1	44.1
15	1	2.9	2.9
18	2	5.9	5.9
Total	34	100.0	100.0

Table 6.27: Maximum Loan Repayment Time

Months	Frequency	Percent	Valid Percent
10	2	5.9	5.9
11.5	4	11.8	11.8
12	13	38.2	38.2
15	1	2.9	2.9
16	1	2.9	2.9
18	2	5.9	5.9
20	1	2.9	2.9
24	3	8.8	8.8
25	1	2.9	2.9
36	5	14.7	14.7
48	1	2.9	2.9
Total	34	100.0	100.0

Surprisingly, for some MFIs it was found that if any borrower was willing to prepay the entire loan amount, the client was penalized and charged the entire loan period's interest. On this issue Malegam Committee has recommended (para 5.9 b) that the tenure of the loan should not be less than 12 months and the borrower has the right of prepayment of their loan amount without penalty charges. Thus, it may be concluded that majority of the MFIs in Assam recover their loans in 12 months and the loan repayment period varies from 1 month to 48 months. Another important finding of this study is that penalty is charged by some sample MFIs for loan prepayments.

6.2.7. Guarantor's Attendance

The data reveals that majority (58.8%) of the sample MFIs do not require the guarantor's presence at the office of the MFI at the time of loan disbursement. On the other hand, in 41.2% of the sample MFIs, the guarantor needs to be present at the time of the loan disbursement.

Table 6.28: Guarantor's Presence Required

	Frequency	Percent	Valid Percent	Cumulative Percent
No	20	58.8	58.8	58.8
Yes	14	41.2	41.2	100.0
Total	34	100.0	100.0	

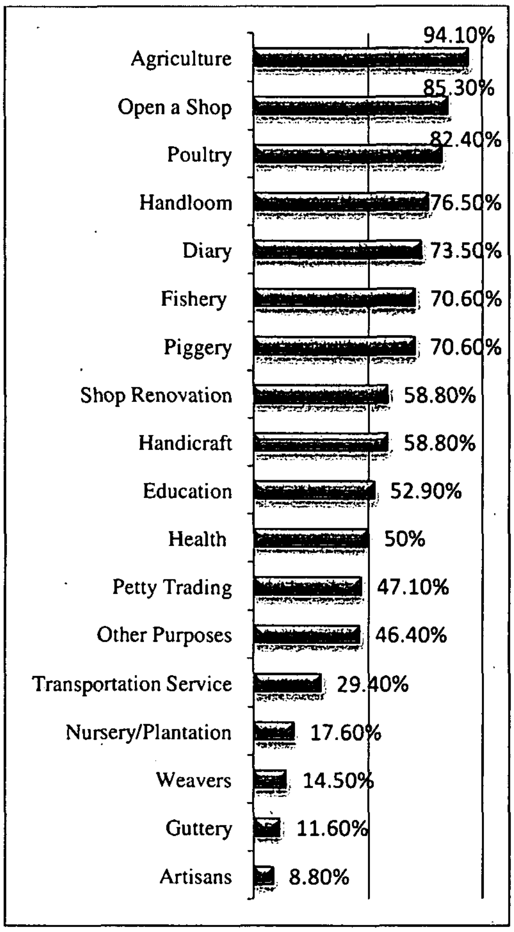
6.2.8. Purpose of the Loan

It is often argued that loans should not be restricted to income generating activities but should also be given for other purposes such as repayment of high-cost loans of moneylenders, education expenses, medical expenses, consumption smoothing, acquisition of household assets, housing, emergencies, etc. A recent study by Centre for Microfinance, Hyderabad indicates that Microfinance is useful in smoothening consumption and relieving seasonal liquidity crises that visit poor families and that it obviates the need for high-cost borrowing from informal sources. A balance has to be struck between the benefits of restricting loans only for income-generating purposes and recognition of the needs of low-income groups for loans for other purposes.

Table 6.29: Different Purposes of the Loan

	Frequency	In %
Agriculture	32	94.1
Open a Shop	29	85.3
Poultry	28	82.4
Handloom	26	76.5
Diary	25	73.5
Piggery	24	70.6
Fishery	24	70.6
Handicraft	20	58.8
Shop Renovation	20	58.8
Education	18	52.9
Health	17	50.0
Petty Trading	16	47.1
Transportation Service	10	29.4
Nursery/Plantation	6	17.6
Weaving	5	14.5
Guttery	4	11.6
Artisans	3	8.8
Consumption Loan	1	2.9
Marriage Purposes	1	2.9
Milk Vending	1	2.9
Stationery/Grocery Shops	1	2.9
Tea stall	1	2.9
Repaying Moneylender's Loan	1	2.9
Tailors	1	2.9
Masala (Spice) Preparation	1	2.9
Sugarcane	1	2.9
Maternity Purposes	1	2.9
Sericulture	1	2.9
Terracotta	1	2.9
Duckery	1	2.9
Mustard Cultivation	1	2.9
Pottery Items	1	2.9

Figure 6.11: Different Purposes of the Loan



Malegam Committee in its report recommended to the RBI that not more than 25% of the loans granted by MFIs should be for non-income generating purposes[7] (para 5.6 e). The result of the survey indicate that majority (94.1%) of the sample MFIs of Assam are giving loan to their clients for agricultural purposes.

The other important purposes of the loan are opening a shop (85.3%), poultry (82.4%), handloom (76.5%), diary (73.5%), piggery (70.6%), fishery (70.6%), handicraft (58.8%), shop renovation (58.8%), education (52.9%), health (50%), petty trading (47.1%), transportation services (29.4%), nursery/plantation (17.6%), weaving (14.5%), artisans (8.8%) and others (46.4%). Here other purposes includes – consumption, marriage purposes, milk vending, stationery/grocery shops, tea stall, repaying loans taken from moneylenders, tailoring, masala (spices) preparation, sugarcane cultivation, maternity purposes, sericulture, terracotta, duckery, mustard cultivation, and pottery items.

According to "Access to Finance in Andhra Pradesh, 2010, CMF/IFMR, Chennai" the usage of loans given by JLGs and SHGs is as under:

Table 6.30: Usage of SHG & JLG Loans in India

Sr. No.	Particular	JLG%	SHG%
i)	Income Generating	25.6	25.4
ii)	Repayment of old debt	25.4	20.4
iii)	Health	10.9	18.6
iv)	Shop/Home Improvement	22.1	13
v)	Education	4.4	5.7
vi)	Others	11.6	7.9

Source: CMF/IFMR, 2010

Summarizing the survey results of this study under the above six categories, it is seen that majority (82%) of the sample MFIs are disbursing loan for income generating purposes.

Table 6.31: Usage of Loans of the Sample MFIs in Assam

Sr.	Particulars	Frequency	Percent
i)	Income Generating	265	82.0
ii)	Repayment of old debt	1	0.3
iii)	Health	17	5.3
iv)	Shop/Home Improvement	20	6.2
v)	Education	18	5.6
vi)	Others	2	0.6

[7]Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector, Reserve Bank of India, January 2011, page no – 7, para 5.6.

6.2.9. Mode of Loan Delivery

The results of the survey indicate that majority (61.8%) of the MFIs deliver the loan amount to their clients at the office of the MFI. Only 8.8% of the MFIs deliver the loan amount at the clients' place through the field coordinators or field officers. Moreover, 29.4% of the sample MFIs provides both the options of delivering the sanctioned loan amount at the client's place as well as at the MFI office.

Table 6.32: Mode of Loan Delivery

	Frequency	Percent	Valid Percent	Cumulative Percent
At Client's Place	3	8.8	8.8	8.8
At MFI Office	21	61.8	61.8	70.6
Both Options are Available	10	29.4	29.4	100.0
Total	34	100.0	100.0	

Discussion with the respondents revealed that the mode of payment of the majority (50%) of the sample MFIs is through cheque. Only 29.4% of the sample MFIs disburse the loan amount through cash and 20.6% of the sample MFIs disburse the loan either through cash or through cheque as per the convenience of the client. Further it was found that for smaller loan amount of less than Rs.3000, the disbursement is done through cash and for higher loan amount, it is paid through cheques. The data also reveals that cash is disbursed to the JLGs and mode of payment to the SHGs is through cheque. Some MFIs issue bearer cheque and some other issue account payee cheque to their clients.

Table 6.33: Mode of Payment

	Frequency	Percent	Valid Percent	Cumulative Percent
Cash	10	29.4	29.4	29.4
Cheque	17	50.0	50.0	79.4
Cash or Cheque	7	20.6	20.6	100.0
Total	34	100.0	100.0	

In some cases where MFIs are only assisting the SHGs in bank linkage, the loan amount is transferred to the SHG's group account by the bank. Few MFIs are also adopting the modern core banking facility of State Bank of India (SBI) and depositing the loan amount in the clients' SBI core banking account. Thus, it may be concluded that the majority of the sample MFIs are disbursing the loan amount through cheque and some MFIs are flexible as per the need of their clients' convenience and disburse the loan amount either by cash or by cheque.

6.2.10. Processing Fees Charged by the MFIs

The recent Malegam Committee suggested that MFIs should levy only two charges apart from the insurance premium. These two charges should consist of an upfront fee towards the processing of the loan which should not exceed 1% of the gross loan amount, and an interest charge. The results of the survey indicate that majority (82.4%) of the MFIs of Assam charge processing fees whereas some (17.6%) of the MFIs do not charge any processing fees from their clients. Generally, the MFIs which do not charge any processing fees are perceived to be more socially responsible than the others.

Table 6.34: MFIs Charging Processing Fees

	Frequency	Percent	Valid Percent	Cumulative
No	6	17.6	17.6	17.6
Yes	28	82.4	82.4	100.0
Total	34	100.0	100.0	

The data showed that the average processing fees charged by the sample MFIs is 1.95% of the total loan amount disbursed to their clients with a standard deviation of 2.54%. Moreover, it has been observed that the maximum processing fees charged is up to 12% of the total loan amount which is very high. Therefore, it may be concluded that some of the sample MFIs are not charging any processing fees, but the majority of the MFIs are charging an average processing fees of 1.95% which is higher than the standard 1% suggested by the Malegam Committee of 2011.

Table 6.35: Descriptive Statistics of Processing Fees

	Any Processing Fees in % of Loan Amount
No. of MFIs Charging Processing Fees	21
No. of MFIs Not Charging Processing Fees	13
Mean	.0195
Median	.0100
Mode	.0100
Std. Deviation	.0254
Minimum	.0000
Maximum	.120

On further investigation it has been observed that some MFIs take fixed charges of Rs.10, Rs.15, Rs.50 or Rs.200 per loan. Whereas some other MFIs charge 1% of the loan amount for a loan of more than Rs.25,000 or 0.5% of the loan amount for a loan of Rs.50,000 and above. For some other MFIs who are involved in the bank linkage, the maximum processing charge is Rs.500 to Rs.3000 depending on the work volume including documentation. Thus it may be concluded that there is no uniformity in the processing fees charged by the sample MFIs and in some cases it is fixed per loan, whereas in some cases it varies from zero to a maximum of 12% of the loan amount.

6.2.11. Collection of Processing Fees.

The results of the survey indicate that majority (64.7%) of the MFIs collect the processing fees before the loan disbursement. Some of the MFIs, on the other hand collect the processing fees later, along with the loan repayments.

Table 6.36: Collection of Processing Fees

	Frequency	Percent	Valid Percent	Cumulative Percent
No Fees Charged	6	17.6	17.6	17.6
Collect Before the Loan Disbursal	22	64.7	64.7	82.4
Later on with Loan repayments	6	17.6	17.6	100.0
Total	34	100.0	100.0	

6.2.12. Interest Rate Charged by the MFIs

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practiced by some microfinance institutions in India. On 19th July 2010, the Governor, Reserve Bank of India also confirmed certain malpractices in MFI functioning for which banks have been asked to take corrective actions and which also states "State Government is the best agency for regulation of the interest rates." The recent Malegam Committee (2011) appointed by the RBI reports that for the larger MFIs the effective interest rate charged by the MFIs in India, calculated on the mean of the outstanding loan portfolio as at 31st March 2009, and 31st March 2010, ranged between 31.02% and 50.53% with an average of 36.79%; for the smaller MFIs the average is 28.73%.

The result of the survey reveals that 55.9% of the sample MFIs prefer flat rate of interest whereas 44.1% of the sample MFIs charge interest rate on reducing balance. The average annual flat rate of interest has been found to be 16.63% with a minimum of 8% and maximum of 24%. On the other hand, the average annual interest rate on reducing balance is found to be 18.20% with a minimum of 7% and maximum of 30%.

Table 6.37: Descriptive Statistics of the Interest Rate Charged by the Sample MFIs.

	Lending Annual Interest Rate	
	Flat	Reducing
Number of MFIs Charging Interest Rate on the Basis of Flat/Reducing	19	15
Mean	16.63	18.20
Median	15.00	18.00
Mode	15.00	18.00
Std. Deviation	5.30	6.12
Range	16.00	23.00
Minimum	8.00	7.00
Maximum	24.00	30.00

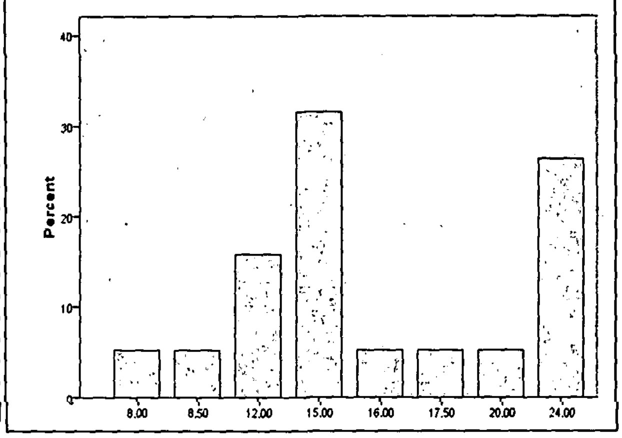
Malegam committee recommends that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs. 100 crores and a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of an amount not exceeding Rs. 100 crores. There should also be a cap of 24% on individual loans (Malegam Committee Report 2011, para, 7.11).

On analysing the data further, it is seen that of the MFIs who charge flat rate of interest, 31.6% of the sample MFIs charged 15% flat rate of interest per annum from their borrowers whereas 26.3% of the MFIs charged 24% flat rate of interest per annum. It has been found that all the sample MFIs who charge flat rate of interest, are charging less than 24% flat rate of interest per annum from their borrower.

Thus it may be concluded that the flat rate of interest charged by sample MFIs of Assam may not be regarded as a higher rate of interest as it falls in line with the Malegam committee recommendations.

Table 6.38: Lending Annual Interest Rate (Flat)			
Interest Rate	Frequency	In %	Valid Percent
8.0	1	2.9	5.3
8.5	1	2.9	5.3
12.0	3	8.8	15.8
15.0	6	17.6	31.6
16.0	1	2.9	5.3
17.5	1	2.9	5.3
20.0	1	2.9	5.3
24.0	5	14.7	26.3
MFIs Charging Flat Interest Rate	19	55.9	100.0
MFIs Not Charging Flat Interest Rate	15	44.1	
Total	34	100.0	

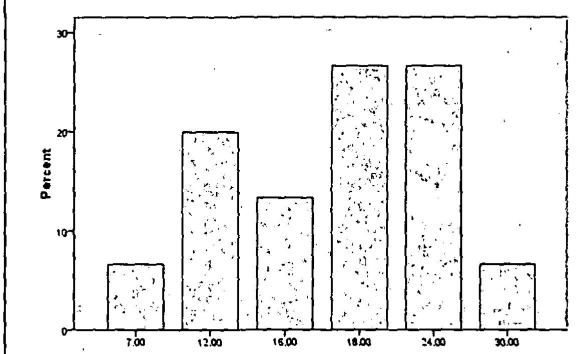
Figure 6.12: Lending Annual Interest Rate (Flat)



Further the data reveals that out of the MFIs charging reducing rate of interest, majority (93.33%) of the MFIs charge less than 24% reducing rate of interest per annum from their borrowers. Only one MFI is found to be charging 30% reducing rate of interest per annum from their borrowers.

Table 6.39: Lending Annual Int. Rate (Reducing)			
Interest Rate	Frequency	Percent	Valid Percent
7	1	2.9	6.7
12	3	8.8	20.0
16	2	5.9	13.3
18	4	11.8	26.7
24	4	11.8	26.7
30	1	2.9	6.7
MFIs Charging Reducing Interest Rate	15	44.1	100.0
MFIs Charging Reducing Interest Rate	19	55.9	
Total	34	100.0	

Figure 6.13: Lending Annual Interest Rate (Reducing)



There is universal agreement that the pricing of interest charges and other terms and conditions should be affordable to clients and at the same time sustainable for MFIs. MFIs need to find the right balance between the pursuit of the social objective of microfinance and the interests of their shareholders.

Therefore, regarding the microfinance delivery system of the MFIs, the study finds some good characteristics and practices of the sample MFIs of Assam. Majority of the sample MFIs are providing required assistance to their clients as most of them belong to remote area and are not aware of the of financial transactions. It has been observed that MFIs are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a Recurring Deposit, Fixed Deposit or a Savings account with the MFIs and understand the genuine requirements of their clients and majority of the sample MFIs disburse emergency loan within 1 to 3 days. The results of the survey indicate that majority (82%) of the sample MFIs of Assam are giving loan to their clients for income generating purposes.

The results of the survey indicate that majority (61.8%) of the MFIs deliver the loan amount to their clients at the office of the MFI. Discussion with the respondents revealed that the mode of payment of the majority (50%) of the sample MFIs is through cheque. The study finds that the flat rate of interest charged by sample MFIs of Assam may not be regarded as a higher rate of interest as it falls in line with the Malegam committee recommendations. Further the data reveals that all the sample MFIs who charge flat rate of interest, are charging less than 24% flat rate of interest per annum from their borrower. Further the study finds that out of the MFIs charging reducing rate of interest, majority (93.33%) of the MFIs charge less than 24% reducing rate of interest per annum from their borrowers. Only one MFI is found to be charging 30% reducing rate of interest per annum from their borrowers.

On the other hand, some of the practices of the sample MFIs are not very healthy, for example, majority of the MFIs are charging processing fees of 1.95% which is higher than the standard 1% suggested by the Malegam Committee of 2011. The study also finds that there is no uniformity in the processing fees charged by the sample MFIs and in some cases it is fixed per loan, whereas in some cases it varies from zero to a maximum of 12% of the loan amount. The results of the survey indicate that majority (64.7%) of the MFIs collect the processing fees before the loan disbursement.

6.3.Microfinance Monitoring System of MFIs

The sustainability and the ultimate success of the MFIs depend on their strong microfinance monitoring system. An MFI with a strong microfinance monitoring system is expected to have 100% repayment rate. To understand the operating dynamics of the MFIs, here an attempt is made to illustrate the microfinance monitoring systems adopted by the different sample MFIs of Assam. The microfinance monitoring systems of the MFIs is measured in terms of eleven variables viz., (i) frequency of management meeting, (ii) allocation of persons for loan monitoring, (iii) frequency of MFI officials' visit to their client, (iv) living standard of the borrower, (v) monitoring the characteristics of the clients' enterprises, (vi) issuing notice to the clients, (vii) actions taken for loan recovery, (viii) collection of loan repayments, (ix) reminding clients of their repayment dates, (x) emphasize the importance of timely repayment, (xi) penalty charges for late repayments. These variables are explained below.

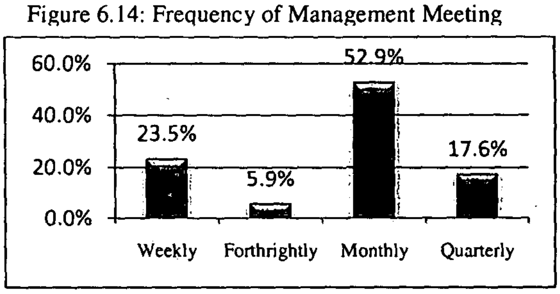
6.3.1. Frequency of Management Meeting

The frequency of the management meetings of the MFIs points to the commitment of the management towards the microfinance monitoring system. The result of the survey indicate that majority (52.9%) of the sample MFIs conduct monthly management meeting to check the pattern of loan repayments of their clients. Moreover, 23.5% of the sample MFIs' management meet weekly whereas 17.6% of the MFIs meet quarterly to check the pattern of loan repayments of their clients.

Table 6.40: Frequency of Management Meetings

	Frequency	Percent	Valid Percent
Weekly	8	23.5	23.5
Forthrightly	2	5.9	5.9
Monthly	18	52.9	52.9
Quarterly	6	17.6	17.6
Total	34	100.0	100.0

Figure 6.14: Frequency of Management Meeting



On further investigation, it is seen that some MFIs check the regularity of their clients' repayment on every installment payment on a daily, weekly, or monthly basis. In some MFIs, daily information is collected by 3 pm and on the same day the concerned Branch Manager checks the status of the clients' repayments on their daily updated software. In some other MFIs, it was found that daily Management Information System (MIS) Demand Sheet is generated and the concerned Branch Manager distributes it daily to the Field Officer. In the evening the Branch Manager checks the passbooks of the clients and evaluates the regularity of the clients' repayments. Therefore, it may be concluded that in case of majority of the sample MFIs, the management meets monthly to monitor their microfinance operations and some of the sample MFIs monitor even on daily basis.

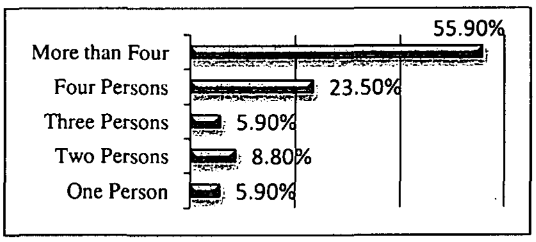
6.3.2. Allocation of Persons for Loan Monitoring

Other things remaining constant, if more persons are allocated for loan monitoring, the repayment rate is expected to be higher. It has been found that majority (55.9%) of the sample MFIs have allocated more than four of its employees to monitor their loans. Moreover, 23.5% of the sample MFIs have four employees exclusively for loan monitoring. 5.9% of the sample MFIs have only one designated person for loan monitoring. Therefore, it may be concluded that majority of the sample MFIs of Assam are having more than four persons for monitoring their loan repayments.

Table 6.41: No. of Persons for Loan Monitoring

	Frequency	Percent	Valid Percent
One Person	2	5.9	5.9
Two Persons	3	8.8	8.8
Three Persons	2	5.9	5.9
Four Persons	8	23.5	23.5
More than Four	19	55.9	55.9
Total	34	100.0	100.0

Figure 6.15: No. of Persons for Loan Monitoring



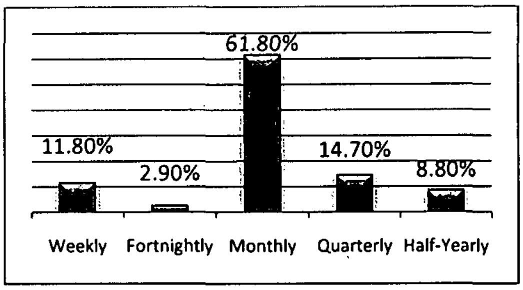
6.3.3. Frequency of MFI Officials' Visit to Clients Place

Analysing the data, it has been observed that majority (61.8%) of the MFI officials of Assam visit their clients on a monthly basis. Moreover, 14.7% of the MFI officials make quarterly visit. Only 11.8% of the sample MFIs officials make weekly visit to their clients to check the clients' business status. On the other hand, 8.8% of the MFI officials pay a visit only once in a six months period.

Table 6.42: No of MFI Officials' Visit to Clients

	Frequency	Percent	Valid Percent
Weekly	4	11.8	11.8
Fortnightly	1	2.9	2.9
Monthly	21	61.8	61.8
Quarterly	5	14.7	14.7
Half-Yearly	3	8.8	8.8
Total	34	100.0	100.0

Figure 6.16: No of MFI Officials' Visit to Clients

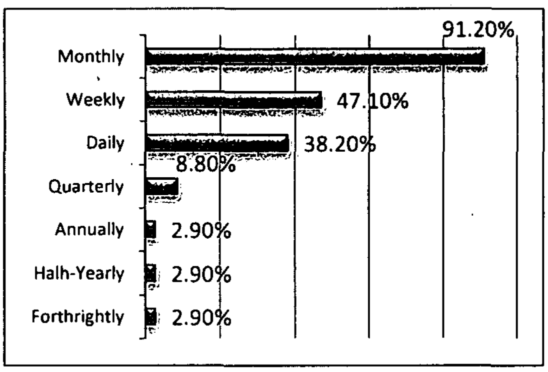


On further investigation, it was found that majority (91.2%) of the sample MFIs collect the loan repayments in monthly installments. 47.1% of the sample MFIs collect in weekly installments and 38.2% of the MFIs collect daily loan installments from their clients. On the other hand, a few MFIs collect the loan repayment in fortnightly, quarterly and half-yearly installments.

Table 6.43: Periodicity of Loan Repayments

	Frequency	Percent	Valid Percent
Daily	13	38.2	38.2
Weekly	16	47.1	47.1
Forthrightly	1	2.9	2.9
Monthly	31	91.2	91.2
Quarterly	3	8.8	8.8
Halh-Yearly	1	2.9	2.9
Annually	1	2.9	2.9

Figure 6.17: Periodicity of Loan Repayments



Malegam Committee (2011) suggested that while MFIs should be encouraged to move to a monthly repayment model, freedom should be given to the MFI to fix a pattern of repayment which can be weekly, fortnightly or monthly depending upon the nature of the loan. The choice of a weekly, fortnightly or monthly repayment schedule should be left to the borrower to suit his/her individual circumstances. This results of the study revealed that the majority (91.2%) of the sample MFIs of Assam collect their loan repayments in monthly installments which is in line with the Malegam

Committee recommendations (2011) whereas only a few MFIs collect their loan repayments in fortnightly, quarterly and half-yearly installments.

6.3.4. Living Standard of the Borrower

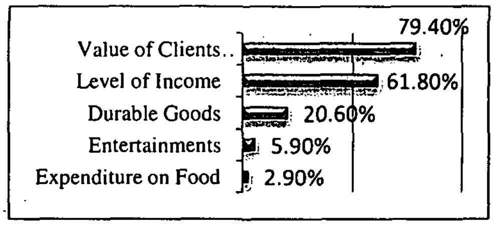
MFI officials usually observe whether the living standard of the borrower has increased after availing the loan. The living standard of the borrowers generally observed in terms of five variables viz., (i) durable goods, (ii) expenditure on food, (iii) level of income, (iv) value of clients' savings, and (v) entertainments.

The results of the survey indicate that majority (79.4%) of the sample MFIs observe the value of clients' savings to assess the present living standard of their clients. Moreover, 61.8% of the sample MFIs consider the level of income of the borrower to be an important factor that determines the living standard of the borrower.

Table 6.44: Living Standards of Borrowers

	Frequency	In %	Valid %
Durable Goods	7	20.6	20.6
Expenditure on Food	1	2.9	2.9
Level of Income	21	61.8	61.8
Value of Clients Savings	27	79.4	79.4
Entertainments	2	5.9	5.9

Figure 6.18: Living Standards of Borrowers



20.6% of the sample MFIs think that increase in the durable goods is an important determinant of the borrowers' present standard of living. On the other hand, a few MFIs consider expenditure on food and entertainment to be indicative of the borrowers' present standard of living. The capacity of the borrowers' subsequent loan repayments largely depends on their present living standards. Therefore, it may be concluded that majority of the sample MFIs of Assam, indirectly monitor the living standard of the borrower after availing the loan by observing three factors viz., (i) value of clients' savings, (ii) level of income, and (iii) increase in durable goods.

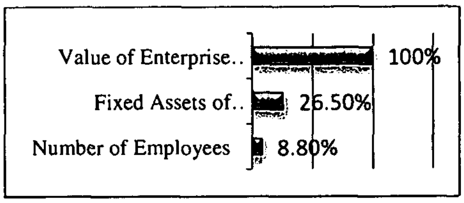
6.3.5. Monitoring the Characteristics of the Clients' Enterprises

The MFIs may also indirectly monitor the loan repayment capacity of the borrower by monitoring the characteristics of the clients' enterprises. The characteristics of the clients' enterprises are measured in terms of three variables viz., (i) value of enterprise sales, (ii) fixed assets of enterprise, and (iii) number of employees.

Table 6.45: Monitoring Clients Business

	Frequency	In %	Valid %
Value of Enterprise Sales	34	100.0	100.0
Fixed Assets of Enterprise	9	26.5	26.5
Number of Employees	3	8.8	8.8

Figure 6.19: Monitoring Clients Business



The data revealed that all (100%) the sample MFIs monitor "value of enterprises' sales" as it is considered to be an important factor that determines the loan repayment capacity of the borrower. 26.5% of the sample MFIs consider the level of fixed assets of the enterprise to be an important factor that determines the repayment capacity of the borrower. On the other hand, a few MFIs feel that increase in the number of employees of the borrowers to be an important indicator relating to the borrowers' loan repayment capacity. Therefore it may be concluded that the entire sample MFIs indirectly monitored the repayment capacity of the borrower by observing value of enterprise sales.

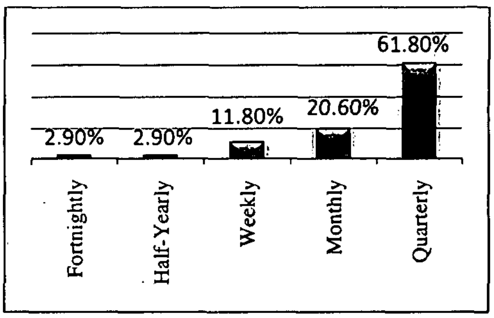
6.3.6. Issuing Notice to the Clients

The results of the survey indicate that majority (61.8%) of the sample MFIs of Assam issue quarterly notice to their clients in case of non-payment of their periodic loan installments.

Table 6.46: Issuance of Notice to the Clients

	Frequency	Percent	Valid Percent
Weekly	4	11.8	11.8
Fortnightly	1	2.9	2.9
Monthly	7	20.6	20.6
Quarterly	21	61.8	61.8
Half-Yearly	1	2.9	2.9
Total	34	100.0	100.0

Figure 6.20: Issuance of Notice to the Clients



In some MFIs, the Credit Officer follows up the borrower on the same day of non-repayment of the loan installment and the Branch Manager visits the borrower after seven days. Some MFIs also send legal notice when the borrowers do not repay three subsequent loan installments. In some cases, it was seen that the Credit Officer fixed a date as per the convenience of the client & then follow up was done accordingly. Thus it is seen that the sample MFIs adopt different methods to tackle the issue of non-repayment of loan installment and majority of them preferred to send an official notice after three months of non-payment.

6.3.7. Actions Taken for Loan Recovery

The advent of MFIs in the microfinance sector appears to have resulted in a significant increase in outreach and the credit availability to the sector. Between 31st March 2007 and 31st March 2010, the number of outstanding loan accounts serviced by MFIs is reported to have increased from 1.004 crores to 2.67 crores and outstanding loans from about Rs. 3800 crores to Rs. 18,344 crores[8]. While this growth is impressive, a number of studies both in India and abroad have questioned whether growth alone is effective in addressing poverty and what might be the adverse consequences of a too rapid growth. In particular, in the Indian context, one of the most important areas of concern is the coercive methods of recovery. The recent Malegam Committee (2011) was appointed by RBI to examine the prevalent practices of MFIs with regard to interest rates, and lending and recovery practices in order to identify trends that impinge on borrowers' interests. There are reports that MFIs or their employees and agents have used coercive methods of recovery in India. In the absence of any government regulations, MFIs were free to adopt any means to recover their non performing assets in India.

The data reveals that majority (88.2%) of the sample MFIs prefer repetitive visits as well as giving verbal warning to their clients in case of non-payment of the loan. Moreover, 79.4% of the sample MFIs prefers to issue official notice to their clients and also try to understand the reasons of non-payments. 61.8% of the MFIs help the

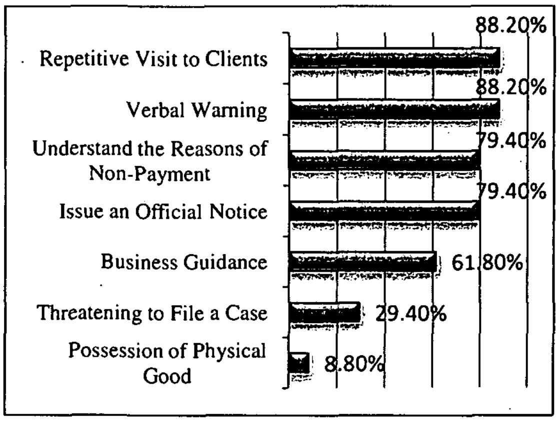
[8]Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector, Reserve Bank of India, January 2011 page no – 11.

borrowers by giving business guidance to those who are not paying the regular installments. On the other hand, 8.8% of the sample MFIs revealed that in case of non-payment of the loan installments, the MFIs would consider taking possession of the physical goods of the borrower. In most of the cases, the loan amounts are very small and filing a legal suit by the MFIs on its defaulting borrower becomes expensive.

Table 6.47: Actions taken for Loan Recovery

	Frequency	In %
Verbal Warning	30	88.2
Repetitive Visit to Clients	30	88.2
Issue an Official Notice	27	79.4
Understand the Reasons of Non-Payment	27	79.4
Threatening to File a Case	10	29.4
Business Guidance	21	61.8
Possession of Physical Goods	3	8.8

Figure 6.21: Actions taken for Loan Recovery



It has been observed that 29.4% of the MFIs only threaten their borrowers that if they do not repay the loan, then a case would be filed against them in the court of law. The MFI officials also opined that in most of the cases, this technique of only threatening to file a case works and the borrowers repay the total loan amount due. Thus it may be concluded that the sample MFIs of Assam try to solve the problem of non-payment of loans by adopting some techniques like, giving verbal warning, making repetitive visits, issuing official notice, understanding the reasons of non-payment, giving business guidance, threatening to file a case and lastly by possessing the physical goods of the borrower. On further investigation, it has been seen that the following recovery methods are also adopted by some of the sample MFIs for the recovery of their non-performing assets.

(a) The defaulting borrower is asked to bring the guarantor to the MFI office.

(b) The MFI officials visit the place of the borrower and fix a date of loan repayment as per the convenience of the client.

(c) The MFI discusses the loan issue with Gaon Bura (Panchayat President).

(d) The MFIs file a legal suit in the court of law.

(e) The MFI arranges a group discussion with the Field Officers to resolve the issue.

(f) In case of SHG & JLG, the MFIs use group pressure tactics.

(g) The MFI liquidates the Savings Deposit/Recurring Deposit/Fixed Deposit of the borrower, which was offered as security.

(h) Peer pressure is generated by putting group loans on hold.

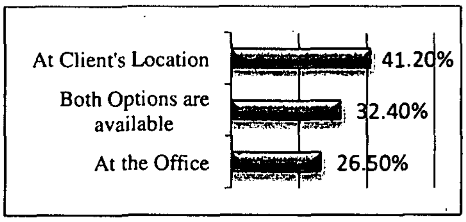
6.3.8. Collection of Loan Repayments

There are reports in various parts of India that MFIs or their employees and agents have used coercive methods of recovery and similar complaints have been made of many of the organisations. The Andhra Pradesh Micro Finance Institutions (Regulations of Money Lending) Act 2010 drafted by the State Government includes a list of actions which constitute "coercive action". This includes "frequenting the house or other place where such person resides or works, or carries on business, or happens to be". It also provides that "all repayments shall be made by the SHG or its members at the office of the Gram Panchayat or at a public place designated by the District Collectors only". On this issue, the recent Malegam Committee (2011) recommended that field staff should not be allowed to make recovery at the place of residence or work of the borrower and all recoveries should only be made at the Group level at a central place to be designated.

Table 6.48: Collection of Loan Repayments

	Frequency	In %	Valid %
At the Office	9	26.5	26.5
At Client's Location	14	41.2	41.2
Both Options are available	11	32.4	32.4
Total	34	100.0	100.0

Figure 6.22: Collection of Repayments



The results of the survey reveal that majority (41.2%) of the sample MFIs of Assam collect the loan installments at the clients' premises. On the other hand, 26.5% of the sample MFIs collect the periodic loan repayment installments at their office premises.

Moreover, 32.4% of the sample MFIs provide both the options to their clients. In some cases, it was also found that the borrowers deposited the periodic loan installments in the SBI core banking account of the MFI.

Therefore, it may be concluded that the majority of the sample MFIs collect the loan repayments at the residence or place of work of the borrower which is not as per the recommendation of the recent Malegam Committee Report of 2011; the Malegam Committee has made it clear that all recoveries should be made at a group level at a centrally designated place.

6.3.9. Reminding Clients of their Repayment Dates

It has been observed that all the sample MFIs of Assam provide repayment schedule to their borrowers mentioning each installment date and amount to be paid. The majority (61.8%) of the sample MFIs send reminders to their clients prior to their repayment date. Thus it is seen that majority of the MFIs of Assam are proactive and put extra effort by reminding the borrowers about their next repayment date even after providing the repayment schedule.

Table 6.49: Reminding Repayments to Clients

	Frequency	Percent	Valid Percent
No	13	38.2	38.2
Yes	21	61.8	61.8
Total	34	100.0	100.0

6.3.10. Emphasize the Importance of Timely Repayment

The data reveals that all (100%) the sample MFIs emphasize the importance of timely payments to their borrowers in different ways. Some of the MFIs conduct Compulsory Group Training (CGT) for three to four days and explain to the borrowers about the benefit of timely loan repayments. Some other MFIs conduct monthly meetings where they stress upon the importance of timely loan repayments. It has been observed that some MFIs ask the borrowers to take an oath (Sapath Nama) that they would repay the loan in the manner prescribed in the repayment schedule.

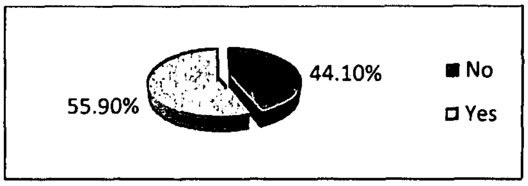
6.3.11. Penalty Charges for Late Repayments.

The results of the survey indicate that majority (55.9%) of the sample MFIs impose penalty for any delay in the periodic loan installments. On the other hand, 44.1% of the sample MFIs do not charge penalty for any delay in the periodic loan repayment installments.

Table 6.50: Penalty in Case of a Late Installment

	Frequency	Percent	Valid Percent
No	15	44.1	44.1
Yes	19	55.9	55.9
Total	34	100.0	100.0

Figure 6.23: Penalty in Case of a Late Installment



On further investigation, it was found that the average penalty charged by the sample MFIs of Assam is 4.31% of each periodic installment of the borrower. On the other hand, some MFIs charge a nominal penalty of Rs.5 per installment in case of any delay.

Table 6.51: Descriptive Statistics of Penalty Charged by MFIs

	Penalty Charge
Mean	0.0431
Median	0.0200
Mode	0.0200
Std. Deviation	0.0882
Minimum	0.0000
Maximum	0.4000

Analysing the distribution of the penalty charged by the sample MFIs, it has been observed that majority (20.6%) of the MFIs charge 2% of the loan installment with a maximum up to 40% of the periodic installment.

The data further reveals that some MFIs charged no penalty up to 60 days, but beyond 60 days, 5% - 15% of the remaining loan balance amount was charged as a penalty for late repayments. It has been also observed that some MFIs charged a nominal amount of Rs.20 as penalty fees for late repayments in case the loan amount is less than

Rs.10,000. If the loan amount is more than Rs.10,000, then 1% of the installment is charged as a penalty for late repayments. Further it was seen that some MFIs charged huge penalty amount of 20%, 40% and 100% of the installment in case of 7 days, 30 days and 60 days of delay from their repayment dates respectively.

Table 6.52: Distribution of Penalty Charged by the MFIs

Penalty % Per EMI	Frequency	Percent	Valid Percent	Cumulative Percent
0.0000	1	2.9	5.3	5.3
0.0050	2	5.9	10.5	15.8
0.0100	3	8.8	15.8	31.6
0.0125	1	2.9	5.3	36.8
0.0200	7	20.6	36.8	73.7
0.0400	2	5.9	10.5	84.2
0.0500	2	5.9	10.5	94.7
0.4000	1	2.9	5.3	100.0
MFIs Charging Penalty	19	55.9	100.0	
MFIs Charging No Penalty	15	44.1		
Total	34	100.0		

The Malegam Committee (2011) recommended that there should be only three charges of the loan, namely (i) a processing fee, not exceeding 1% of the gross loan amount (ii) the interest charge and (iii) the insurance premium. Only the actual cost of insurance should be recovered and no administrative charges should be levied [para, 8.7 (a) (b)]. In this context, the study concludes that majority of the sample MFIs are taking penalty from the borrower which violates the Malegam Committee recommendations and there is no uniformity in the rate of penalty charged by the sample MFIs of Assam which varies from zero to a maximum of 100% of the periodic loan installment.

Therefore, regarding the microfinance monitoring system of the sample MFIs, the study finds some good practices. For majority of the sample MFIs, the management meets monthly to monitor their microfinance operations. Majority of the sample MFIs have allocated more than four of its employees to monitor their loans. Majority of the sample MFI officials of Assam visit their clients on a monthly basis and collect their loan repayments in monthly installments which is in line with the Malegam

Committee recommendations (2011). The study concludes that majority of the sample MFIs of Assam, indirectly monitor the living standard of the borrower after availing the loan by observing three factors viz., (i) value of clients' savings, (ii) level of income, and (iii) increase in durable goods. The study also finds that the entire sample MFIs indirectly monitored the repayment capacity of the borrower by observing value of enterprise sales. It has been observed that the sample MFIs adopt different methods to tackle the issue of non-repayment of loan installment and majority of them preferred to send an official notice after three months of non-payment. The study finds that majority of the sample MFIs of Assam are proactive and put extra effort by reminding the borrowers about their next repayment date even after providing the repayment schedule and all sample MFIs emphasize the importance of timely payments to their borrowers in different ways.

On the other hand, some of the practices of the sample MFIs are not very healthy, for example, majority of the sample MFIs prefer repetitive visits as well as giving verbal warning to their clients in case of non-payment of the loan. The study finds that the sample MFIs of Assam try to solve the problem of non-payment of loans by adopting some techniques as, giving verbal warning, making repetitive visits, threatening to file a case and lastly by possessing the physical goods of the borrower.

It has been observed that majority of the sample MFIs collect the loan repayments at the residence or place of work of the borrower which is not as per the recommendation of the recent Malegam Committee Report of 2011; the Malegam Committee has made it clear that all recoveries should be made at a group level at a centrally designated place. The study also concludes that majority of the sample MFIs are taking penalty from the borrower which violates the Malegam Committee recommendations and there is no uniformity in the rate of penalty charged by the sample MFIs of Assam which varies from zero to a maximum of 100% of the periodic loan installment.

6.4. Chapter Summary

This chapter summarizes the dynamics of the sample MFIs of Assam in terms of three parameters viz., microfinance assessment, microfinance delivery and microfinance monitoring. To understand the operating mechanism of the sample MFIs, questionnaire was designed and primary data were collected by interviewing the top officials of the sample MFIs.

Regarding the assessment of the creditworthiness of the clients by the MFIs, the study finds that majority of the sample MFIs prefer SHGs, JLGs and women as their clients. The study concludes that majority of the sample MFIs of Assam are flexible in assessing the creditworthiness of their clients and welcome the beneficiaries without much entry restrictions as required in formal banking and majority of the MFIs do not require any collateral before disbursing loan to their clients. The documentation required by the sample MFIs of Assam is very simple and the three most important documents required by the MFIs from their clients are – photograph, address proof, and Panchayat certificate. The study reveals that the sample MFIs are adopting different criteria to assess their clients and majority (97.1%) of the MFIs prefers to visit the client's place to assess the creditworthiness. Majority of the sample MFIs do not require any collateral to provide loan to their clients and the loan sanctioning procedure of the MFIs is very simple and majority of the final decision on loan sanction is predominantly assessed at three levels.

Regarding the microfinance delivery system of the MFIs, the study finds some good characteristics and practices of the sample MFIs of Assam. Majority of the sample MFIs are providing required assistance to their clients as most of them belong to remote area and are not aware of the of financial transactions. It has been observed that MFIs are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a Recurring Deposit, Fixed Deposit or a Savings account with the MFIs and understand the genuine requirements of their clients and disburse emergency loan within 1 to 3 days. The study also finds that the sample MFIs are giving loan to their clients mostly for the income generating purposes like, agriculture etc. while the other purposes like repayment of old debt, health expenses, shop/home improvement etc. were less preferred. The study finds that majority of the average SHG and JLG loan size of the sample MFIs are less than Rs. 25,000 but the majority of the individual loan size of the MFIs is higher than Rs. 35,000. The results of the survey indicate that majority (61.8%) of the MFIs deliver the loan amount to their clients at the office of the MFI. Discussion with the respondents revealed that the mode of payment of the majority (50%) of the sample MFIs is through cheque. The study finds that the flat rate of interest charged by sample MFIs of Assam may not be regarded as a higher rate of interest as it falls in line with the Malegam committee recommendations. Further the data reveals that out of the MFIs charging reducing rate of interest, majority of the MFIs charge between 18% and 24% reducing rate of interest per annum from their borrowers. This is also as per norms put forward by the Malegam Committee. On the other hand, some of the practices of the sample MFIs are not very healthy, for example, majority of the MFIs are charging processing fees of 1.95% which is higher than the standard 1% suggested by the Malegam Committee of 2011. The study also finds that there is no uniformity in the processing fees charged by the sample MFIs and in some cases it is fixed per loan, whereas in some cases it varies from zero to a maximum of 12% of the loan amount. The results of the survey indicate that majority (64.7%) of the MFIs collect the processing fees before the loan disbursement.

Regarding the microfinance monitoring system of the MFIs, the study finds some good characteristics and practices of the sample MFIs of Assam. For majority of the sample MFIs, the management meets monthly to monitor their microfinance operations. Majority of the sample MFIs have allocated more than four of its employees to monitor their loans. Majority of the sample MFI officials of Assam visit their clients on a monthly basis and collect their loan repayments in monthly installments which is in line with the Malegam Committee recommendations (2011). The study finds that majority of the sample MFIs of Assam, indirectly monitor the living standard of the borrower after availing the loan by observing three factors viz., (i) value of clients' savings, (ii) level of income, and (iii) increase in durable goods. The study also finds that the entire sample MFIs indirectly monitored the repayment capacity of the borrower by observing value of enterprise sales. It has been observed that the sample MFIs adopt different methods to tackle the issue of non-repayment of loan installment and majority of them preferred to send an official notice after three months of non-payment. It has been observed that majority of the sample MFIs of Assam are proactive and put extra effort by reminding the borrowers about their next repayment date even after providing the repayment schedule and all sample MFIs emphasize the importance of timely payments to their borrowers in different ways. On the other hand, the practices of some of the sample MFIs are not very healthy, for example, majority of the sample MFIs prefer repetitive visits as well as giving verbal warning to their clients in case of non-payment of the loan. The study finds that the sample MFIs of Assam try to solve the problem of non-payment of loans by adopting some techniques as, giving verbal warning, making repetitive visits, threatening to file a case and lastly by possessing the physical goods of the borrower. It has been observed that majority of the sample MFIs collect the loan repayments at the residence or place of work of the borrower which is not as per the recommendation of the recent Malegam Committee Report of 2011; the Malegam Committee has made it clear that all recoveries should be made at a group level at a centrally designated place. The study also concludes that majority of the sample MFIs are taking penalty from the borrower which violates the Malegam Committee recommendations and there is no uniformity in the rate of penalty charged by the sample MFIs of Assam which varies from zero to a maximum of 100% of the periodic loan installment.

Chapter 7

Conclusions & Recommendations

CHAPTER 7: CONCLUSION AND RECOMMENDATION

7.1. Conclusions

The purpose of this study was to find out the financial as well as social performance of selected microfinance institutions of Assam and to understand their operating dynamics in terms of microfinance assessment, delivery and monitoring. The evaluation was based on primary and secondary data from MFIs that were offering microcredit services to their clients in Assam. The survey was limited only to those MFIs offering microfinance services to their clients for the last three years as on 31st March 2010. In order to examine the complexity and dynamics surrounding the performance management of the MFIs, a field research was conducted to perform a financial and social performance analysis of the 34 leading MFIs of Assam in terms of their client outreach i.e., the number of clients served by the MFIs.

To fulfill the first objective of this study, an attempt was made to find the financial performance of the sample MFIs of Assam under six dimensions (i) profitability, (ii) portfolio risk, (iii) financial management, (iv) sustainability, (v) efficiency, and (vi) productivity. In total, 30 ratios were calculated to measure the financial performance of the sample MFIs for the three financial years during 2007-2010. The summary of the major findings of this study is given below.

(1) **Higher Financial Performances:** Analysing the ratios, it has been observed that the sample MFIs of Assam were doing exceptionally well on the following performance dimensions with respect to Indian MFIs' benchmark ratios and these results were found to be statistically significant at 5% level of significance.

Table 7.1: Higher Performance Dimensions of the Sample MFIs of Assam

Ratio	Performance	Sample MFIs of Assam	Indian MFIs	Asian MFIs
ROA	Profitability	9.43%	1.40%	1.30%
ROE	Profitability	19.83%	12%	9.60%
PM	Profitability	43.63%	8%	8%
OSS	Sustainability	192.52%	114.50%	113.40%
CPB	Efficiency	Rs. 430.28	Rs.600.30	Rs.1200.60
AOLS	Productivity	Rs.6150.47	Rs. 4002	Rs. 6563.28

(2) **Financial Performances at Par:** The sample MFIs of Assam were found to perform at par with the Indian MFIs' benchmark ratios on the following performance dimensions and these results were found to be statistically significant at 5% level of significance.

Table 7.2: Similar Performance Dimensions of the Sample MFIs of Assam

Ratio	Performance Dimension	Sample MFIs of Assam	Indian MFIs	Asian MFIs
PY	Profitability	22.17%	25.2%	29.1%
WOR	Risk	0.0943%	0.10%	0.40%
DER	Financial Management	9.45%	6.2%	4.5%
RCR	Risk	59.35%	97.9%	91.1%
FSS	Sustainability	106.25%	108.7%	108%
PTA	Financial Management	74.83%	78%	74.3%
OER	Efficiency	18.30%	12.7%	17.2%
OETA	Efficiency	10.05%	9.80%	13.90%
AETA	Efficiency	5.28%	3.80%	5.40%
BPLO	Productivity	Rs. 323.83	Rs. 441	Rs. 272
PELP	Efficiency	9.25%	7%	9.6%
ADLS	Productivity	Rs.5716.59	Rs. 4242.12	Rs. 6643.32

(3) **Lower Financial Performances:** The sample MFIs of Assam were found to perform below the Indian MFIs' benchmark ratios on the following performance dimensions and these results were found to be statistically significant at 5% level of significance.

Table 7.3: Lower Performance Dimensions of the Sample MFIs of Assam

Ratio	Performance Dimension	Sample MFIs of Assam	Indian MFIs	Asian MFIs
ASGP	Efficiency	1.17%	2.20%	2.80%
PAR(30)	Risk	6.96%	0.40%	0.40%
BPS	Productivity	Rs. 112.07	Rs. 251	Rs. 132
LPSM	Productivity	95	249	133
LPLO	Productivity	212	456	279
PALR	Productivity	40.72%	63%	51.9%

(4) **Other Financial Performances (No Benchmark is Available):** The microfinance sector in Assam is wholly unorganized and therefore there is lack of information about the MFIs operating in the state. For some of the performance dimensions of the sample MFIs viz., PER, FER, CFR, SDI, RR and CT, Indian or Asian benchmarks were not available. In the absence of National benchmarks for six such ratios, the study finds the average performance of the sample MFIs and

also calculated sample averages in these dimensions which may be considered as a benchmark and can help the future researches, practitioners, donors and other stakeholders of microfinance industry to explain the performance dynamics of the MFIs. The sample averages of these ratios are given below:-

Table 7.4: Other Performance Dimensions of Sample MFIs of Assam

Ratio	Performance Dimension	Sample MFIs of Assam
CFR	Financial Management	20.45%
PER	Risk	0.60%
FER	Financial Management	13.30%
SDI	Sustainability	6.29%
RR	Sustainability	91.59%
CT	Efficiency	98.82%

(5) **Overall Financial Performance:** The overall financial performance of the sample MFIs of Assam with respect to their corresponding Indian benchmark ratios may be summarized as below.

Table 7.5: Summary of Performance Dimensions of MFIs

Performance Dimensions	Ratios	Results	Sample MFIs' Average Performances
Profitability	ROA	Higher	Favorable
	ROE	Higher	Favorable
	PY	At Par	Favorable
	PM	Higher	Favorable
Risk	PAR(30)	Higher	Unfavorable
	WOR	At Par	Favorable
	RCR	At Par	Favorable
Financial Management	DER	At Par	Favorable
	PTA	At Par	Favorable
Sustainability	OSS	Higher	Favorable
	FSS	At Par	Favorable
Efficiency	OER	At Par	Favorable
	CPB	Lower	Favorable
	ASGP	Lower	Unfavorable
	OETA	At Par	Favorable
	AETA	At Par	Favorable
	PELP	At Par	Favorable
Productivity	BPS	Lower	Unfavorable
	BPLO	At Par	Favorable
	ADLS	At Par	Favorable
	PALR	Lower	Unfavorable
	AOLS	Higher	Favorable
	LPSM	Lower	Unfavorable
	LPLO	Lower	Unfavorable

To summarize the overall financial performance of the MFIs, the study concludes that the sample MFIs were doing exceptionally well in terms of ROA, ROE, PM, OSS, CPB, and AOLS with respect to Indian MFIs' benchmarks and these results were found to be statistically significant at 5% level of significance. The sample MFIs of Assam were found to be performing at par with the Indian MFIs in terms of PY, WoR, RCR, DER, PTA, FSS, OER, OETA, AETA, PELP, BPLO, and ADLS. The sample MFIs were performing below the Indian benchmark ratios on the performance parameters of ASGP, PAR-30, BPS, LPSM, LPLO, and PALR. For six ratios, National benchmarks were not available. So, the average performances of these ratios were calculated for 2007-08, 2008-09, and 2009-10 and a sample average was found which represents the performance of the sample MFIs in terms of PER (0.6006), CFR (20.45), FER (13.30), SDI (6.29), RR (91.59) and CT (98.82).

To fulfill the second objective of this study, an attempt was made to find the social performance of the sample MFIs of Assam. Using the Social Performance Indicators (SPI) tool, an internal evaluation of the social performance of the sample MFIs was conducted in light of four fundamental dimensions with some research queries to be addressed - Who are the clients and how are they targeted? Are products and services adapted to clients' needs? How are client capacities reinforced? How does the organization carry out its social responsibility? Social performance as per the SPI tool, was measured by 15 indicators under four dimensions viz., (i) outreach to the poor & excluded - D_1, (ii) adaptation of the services and products to the target clients - D_2, (iii) improvement of social and political capital of the clients - D_3, and (iv) social responsibility of the institution - D_4. The summary of the social performance of the sample MFIs is given below:

(1) **Overall Social Performance:** The study concludes that the average social performance of the sample MFIs of Assam is higher in terms of outreach to the poor and excluded as compared to the other three dimensions viz., adaptation of the services and products to the target clients, improvement of social and political capital of the clients, and social responsibility of the institution. The social performance results of the sample MFIs demonstrated a strong emphasis on social

collateral, tools for targeting, and transparency; very less focus on social responsibility towards its clients and local community, human resource policy, empowerment, client representatives, participation, non-financial services, and range of services; and a balanced effort between mission of the MFI, size of transactions, geographic and socio-economic focus, and quality of services. The average social performance score obtained by the sample MFIs is very low (49%). The social performance of the sample MFIs in terms of adaptation of the services and products to the target clients (Dimension-2), improvement of social and political capital of the clients (Dimension-3) and social responsibility of the institution (Dimension-4) need to be improved significantly as the SPI score of the sample MFIs under these three dimensions is very low.

(2) **Mission of the MFI:** Regarding the mission of the sample MFIs, it appears that keeping in tune with its social focus, the objectives that get high priority are - outreach to the poor, positive impact on income of clients, and inclusion of women, illiterate individuals, and unsecured workers in its target group.

(3) **Geographic & Socio-economic Focus on Client Group:** Regarding the geographic and socio-economic focus on client groups of the MFIs, the study finds that the entire sample MFIs provide loans to rural areas as well as to women and the average percentages of the MFI's loan portfolio disbursed to these groups are 83% and 69% of the total portfolio of the MFIs respectively. The study further finds that 82.4% of the sample MFIs provide loans to workers with insecure status and illiterate individuals, and the average percentages of the MFI's loan portfolio disbursed to these groups are 32% and 20% of the total portfolio of the MFIs respectively. Lastly, the study also showed the inclusion of urban outreach by the sample MFIs, as 53% of the sample MFIs provide loans to urban areas and the average percentage of the sample MFIs' loan portfolio particularly disbursed to the urban area is 24% of the total loan portfolio. Thus it may be concluded that the sample MFIs have well diversified loan portfolio in terms of different geographic and socio-economic focus on client groups.

(4) **Tools for targeting:** It has been observed that the sample MFIs of Assam are targeting clients who are totally different from those targeted by traditional banks and other formal financial institutions. Majority (82%) of the MFIs use different

targeting devices based on participatory wealth ranking, economic activity and illiteracy for improving the depth of poverty outreach.

(5) **Size of Loan and Savings Transactions:** The sample MFIs of Assam are having greater and deeper outreach as majority of the loan amounts were less than 50% of the GDP per capita of Rs. 22,173 during 2009-2010. Majority of the MFIs do not mobilize savings from their clients but some sample MFIs are collecting demand deposits from their clients' violating government regulations. 35% of the sample MFIs are maintaining savings transactions with their clients and the average number of the savings accounts per MFIs in Assam is found to be 2340 in the last financial year 2009-2010. Majority (83%) of the total number of savings accounts in the financial year 2009-2010 is also below 50% of GDP per capita. Again, it is seen that the sample MFIs are having greater and deeper outreach as majority of these demand deposits are less than 50% of the GDP per capita of Rs. 22,173. The average size of savings account per annum is Rs.3262 which is 8% of the GDP per capita in 2009-2010. It has been observed that the sample MFIs provide financial services which reaches to the poor without of any restriction as the average savings amount of the clients of some sample MFIs is as low as Rs.10 per day.

(6) **Collateral:** Majority (70.5%) of the sample MFIs do not require any collateral and agree to provide loans secured by social collateral only.

(7) **Adaptation of the services and products to the target clients:** Regarding the range of services of the sample MFIs of Assam, the study finds that the sample MFIs are giving more short-term loans of 6 to 12 months as compared to the long-term loans of more than one year. Majority (68%) of the sample MFIs provide consumer or emergency loans in case of any immediate requirement. But the study also highlights that the sample MFIs of Assam are offering limited range of loan products to their clients and some MFIs are having only one loan product to offer to their clients. 35.3% of the sample MFIs offer savings account facility to their clients, out of which majority (97.1%) of the MFIs have one or two types of savings accounts. The study reveals that majority (70.6%) of the sample MFIs do not offer any insurance products to their clients. The study concludes that there is lack of flexibility for the clients in loan repayment system of the sample MFIs as majority (58.8%) of the sample MFIs have only one fixed schedule of repayment.

(8) **Quality of Services:** Regarding the quality of service of the sample MFIs of Assam, the study finds that in case of majority of the MFIs, their clients had to travel more than 5 km distance to receive loan or to make deposits and the mean distance travelled by the clients is 10.27 km with minimum of 0 km and maximum of 35km. After the assessment of the creditworthiness of the clients, some MFIs provide the loan amount at the client's residence. The study also highlights that 94.2% of the sample MFIs have less than 30% dropouts or inactive clients and the average number of inactive or dropout clients of the sample MFIs was 7.68% during 2009-2010 with minimum of zero and maximum of 35%. The study also reports that majority of the MFIs' credit committees are conducting more than one meeting in a month. But the study also finds that majority of the MFIs do not conduct any market survey to improve the quality of services to their clients. As majority of the sample MFIs never conducted any survey on dropout or inactive clients it appears that the sample MFIs may not be professional in managing their drop-outs or inactive clients.

(9) **Non-financial Services accessible to the clients:** Regarding the non-financial services accessible to the clients of the sample MFIs of Assam, the study finds that majority of the MFIs are providing some non-financial services for some or for all on a compulsory basis. This clearly indicates some sort of social responsibility of the sample MFIs towards their clients. The study concludes that majority of the sample MFIs provide non-financial services related to social needs (literacy training, health services, access to social workers, etc.) as well as financial and economic management of the loan (business training, management of family budget, access to market, innovation, etc.).

(10) **Participation:** Regarding the participation of the clients in the management of the sample MFIs of Assam, it has been observed that majority of the MFIs do not encourage clients' involvement in the design of the products and services. But those MFIs that did encourage clients' involvement in the design of the products and services were seen to have better, appropriate, effective and innovative financial products/services for the poor.

(11) **Transparency:** Regarding the improvement of the social and political capital of the clients, some good characteristics and practices of the sample MFIs of Assam

have been observed. The study finds that majority (88.2%) of the sample MFIs are transparent in differentiating the amount of the principal and the amount of the interests and fees to be paid by the clients. All the MFIs, with one exception, issue written statements on loan repayments to their clients. It has been observed that majority of the MFIs' annual accounts can be accessed by their clients and these MFIs also maintain full transparency and give clear information to the borrowers.

(12) **Clients Representatives:** The study reports that majority of the sample MFIs are having a system of rotation among the elected members in the MFI management body and ensure democratic participation in the MFI's management decisions. But regarding the client representativeness in the MFI's management, the study finds that majority of the sample MFIs of Assam do not have client representative bodies and also do not involve their clients for consultation, decision-making and control. The study also finds that there is lack of capacity building in terms of regular professional training programmes for the representatives and elected members of the MFI management and majority of the MFIs do not have women among the client representatives in the MFI management. Only 14.7% of the MFIs have women representatives proportionate to women clients and the male participation in the MFIs' management is more than female participation.

(13) Empowerment: Regarding empowerment of the clients of the sample MFIs of Assam, the study reports that majority of the sample MFIs feel that strengthening the social cohesion of the local community is a minor objective, whereas 29.40% of the sample feel that it is a major objective of the MFI. It has been found that there is lack of regular leadership training for the clients of sample MFIs. On the other hand, majority of the sample MFIs feel that they have some influence on the public policy of the local government on microfinance related issues. Thus the study reveals that at the local government level, the sample MFIs believe that they can exert influence on the microfinance related issues but at the National level, it is very negligible.

(14) **Human Resource Policy:** The results of the study reveals that for majority of the sample MFIs, the initial annual income (with bonuses) for a loan officer is much lower compared to that of a school teacher (primary school) in the same locality. Majority (61.8%) of the sample MFIs keep less than 1% of their annual budget per

annum for training of its employees and most of these MFIs depend on some training programmes organised by the government agencies like NABARD, SIDBI, NEDFI, DRDA etc. It has been observed that majority (61.8%) of the MFIs do not provide any health coverage facility to their employees. Thus the study concludes that the employees of most of the sample MFIs have not yet received minimum service benefits in the form of basic health coverage facilities. For 52.9% of the sample MFIs, there was no attrition of its employees during the last 12 months and for 29.4% of MFIs, the employee turnover ratio was 10%. The average employee turnover ratio of these MFIs was found to be 4.29%. Thus the study concludes that even though the employees are getting very less salary in the MFIs, the employee turnover ratio is very low.

(15) **Social responsibility towards the clients:** The study finds that the sample MFIs are not much concerned about their social responsibility towards their clients as majority (58.8%) of the MFIs had not yet conducted any socio-economic study to assess the situation of the clients. The results further show that majority (61.8%) of the sample MFIs do not provide any type of insurance that frees the family from the burden of debt in case of death of the borrower. Although some sample MFIs of Assam have started taking interest in micro-insurance to protect borrowers' families from the debt burden in case of death of the borrower, but majority of the MFIs clients' are underinsured. Majority (76.5%) of the sample MFIs proposed specific measures such as rescheduling of the loans in case of natural disaster. Thus, the study concludes that majority of the sample MFIs of Assam are flexible in loan repayment duration in case of any natural disaster.

(16) **Social responsibility towards the local community:** The study shows that majority (58.8%) of the sample MFIs did not take care that its actions are compatible with the local culture and values. However, the entire sample MFIs employed local staff who spoke the local Assamese language and understand the local culture of various respective places of Assam. Majority (58.8%) of the sample MFIs had never assisted the local community through financial support, grants or loans for community projects like schools, hospitals, churches, mosques, temples, etc. A few sample MFIs were found assisting their local communities in education, health and religious activities. The study reports that majority (88.2%) of the sample MFIs do not feel the need for changing their products, services or

their way of functioning because of the negative impact on social cohesion or welfare of the community.

To fulfill the third objective of this study, an attempt was made to explain the dynamics of the sample MFIs in terms of three parameters viz., (i) assessment of the creditworthiness of the clients, (ii) microfinance delivery mechanism, and (iii) microfinance monitoring system. The major findings regarding the microfinance monitoring system of the sample MFIs of Assam are given below.

(1) **Categories of Clients:** Regarding the assessment of creditworthiness of the clients by the MFIs, the study finds that majority of the sample MFIs prefer SHGs (88.2%), JLGs (73.5%) and women (70.6%) as their clients. Surprisingly, the study reveals that some (14.7%) of the sample MFIs also prefer government service holders as their client. Majority (32.4%) of the sample MFIs are providing both individual and group loans to their clients.

(2) **Requirements to Open a Recurring/Fixed Deposit/Loan Account:** It has been observed that majority (67.6%) of the sample MFIs do not have any pre-condition for opening a recurring/fixed deposit/loan account. They are flexible in opening a recurring/fixed deposit/loan account and welcome the beneficiaries without much entry restrictions as required in the formal banking and financial institutions.

(3) **Documents Required for Recurring/Fixed Deposit/Loan Account:** It has been found that the three most important documents required by the MFIs from their clients are – photograph, address proof and Panchayat certificate to open a savings/loan account. Thus the study shows that the documentation required by the sample MFIs of Assam is very simple and reduces difficulty of the clients in entering the financial system. This is helpful as most of the clients belong to the remote rural areas and do not have much knowledge of banking transactions.

(4) **Conditions for availing a loan:** The results of this study indicate that majority (94.1%) of the sample MFIs require only 'loan agreement' with the clients for disbursing the loan. Moreover, some other conditions need to be fulfilled by

clients to become eligible for receiving loans viz., (a) subscribing to the membership of the MFI, (b) submitting a business plan, (c) having a bank account, (d) producing a guarantor, (e) depositing a trade license etc.

(5) **Collateral requirements:** It has been found that majority (73.5%) of the sample MFIs do not require any collateral for disbursing loans to their clients. The study finds that some (20.6%) of the sample MFIs prefer cash (balance amount in the savings account of the client with the particular MFI) as collateral for disbursing loans to their clients and the maximum loan amount in this case varies from 10% of the savings balance to 90% of the savings account balance in the first loan cycle. Some MFIs also provide loans that are double the savings amount in the second or third loan cycle. It has been found that the other collaterals required by some of the sample MFIs are land documents, NSC/KVP, Bank FD, LIC Policy. Thus, the study concludes that majority of the sample MFIs do not require any collateral to provide loan to their clients whereas a few MFIs still require collateral preferably cash in the form of savings account balance maintained with the particular MFI.

(6) **Assessment of the Clients for Loan:** The study shows that the sample MFIs adopt different criteria to assess their clients and majority (97.1%) of the MFIs prefer to visit the client's place to assess the creditworthiness.

(7) **Levels of Assessment:** The study finds that majority (67.6%) of the sample MFIs assess their clients by their loan officers as well as through the MFI's loan committee. The study further reveals that majority of the sample MFIs takes the final decision on loan sanction at three assessment levels in MFIs. For some MFIs, these assessment levels are – (a) agent, field officer and loan committee meeting; or (b) credit officer, branch manager and operation manager; or (c) CGT, GRT & Branch Manager or Area Manager; (d) Field Coordinator, frequency of savings account transactions, and NABARD grading. For some MFIs, loan sanctioning procedure is very simple and final decision about the loan sanction is taken at only one assessment level like, by secretary, or by executive committee, or by loan sanctioning committee, or by NABARD grading, or by a base line survey. Therefore, the study concludes that the loan sanctioning procedure of the sample

MFIs is very simple but robust and final decision on loan sanction is a multi-level process.

The major findings regarding the microfinance delivery system of the sample MFIs are given below.

(8) **Assistance in Loan Application:** It has been observed that majority (82.4%) of the sample MFIs need to help their clients in filling up the loan application form. This assistance is required as most them belong to the remote areas with very less knowledge of official formalities as well as financial transactions.

(9) **Time Required for Opening a Demand Deposit:** The results of the study indicate that the average time required by the MFIs to open – a Recurring Deposit account is 1.11 days, a fixed deposit account is 1.5 days and a savings account is 4 days. Thus it is seen that MFIs are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open Recurring Deposit, Fixed Deposit or Savings account with the MFIs. As per the government regulation, MFIs are not allowed to accept deposit in any form from the public. The study finds that some of the sample MFIs are violating the government regulations by collecting deposits from the public. While discussing the issue with the MFI officials during the primary survey, they opined that there is a huge demand of it and clients are not allowing the MFIs to discontinue this service.

(10) **Time Required for Loan Disbursement:** The results of the survey indicate that the average time required by the MFIs to disburse a loan is approximately 27 days. The sample MFIs are flexible in understanding the genuine requirements of their clients and majority of the sample MFIs disburse emergency loans within 1-3 days without much official formalities.

(11) **Sanctioning Authority of the Loan:** For majority (79.4%) of the sample MFIs, the loan sanctioning authority is a committee and the final loan sanctioning decision is taken by the committee.

(12) **Size of Loan Amount:** The study finds that the sample MFIs provide loans under three main categories viz., SHG, JLG and individual. It has been observed that the average size of the individual SHG loan ranges from a minimum amount of Rs.2,403 to a maximum of Rs.16,225; average size of the individual JLG loan ranges from a minimum amount of Rs.3180 to a maximum of Rs.24,480; and the average size of the individual loan ranges from a minimum amount of Rs.2838 to a maximum of Rs.53333. The recent Malegam Committee (2011) recommended that the size of an individual loan should be restricted to Rs.25,000. The Reserve Bank of India in a guideline published on March 3, 2011 increased this amount to Rs. 35,000. The present study finds that majority (93.55%) of the sample MFIs provide individual SHG loan amount of less than Rs.35,000 as well as majority (72%) of the sample MFIs provide individual JLG loan amount of less than Rs.35,000. But majority (52.38%) of the sample MFIs provide individual loan amount of more than Rs.35,000 which is above the prescribed limit of the RBI. Therefore, the study concludes that the majority of the average SHG and JLG loan size of the sample MFIs is less than Rs.35,000 and conforms to the Reserve Bank of India microfinance guidelines (published on March 3, 2011) but the majority of the individual loan size is higher than the benchmark set by the RBI. As the individual loan size is higher, it is strongly suggested that the sample MFIs of Assam must provide loan below Rs.35,000 which qualifies as a microfinance loan.

(13) **Repayment Time:** The study finds that the minimum average loan repayment time offered by the sample MFIs is nearly 10 months and maximum average repayment time is approximately 19 months. Further it has been observed that the minimum loan repayment time specified by the sample MFIs is 1 month and maximum is up to 48 months. The study reports that in case of 44.1% of the sample MFIs, minimum loan repayment time specified for their clients is 12 months; whereas 38.2% of the sample MFIs reveals that the maximum loan repayment time specified by them is also 12 months. For some MFIs, weekly repayment is also offered to their clients. Surprisingly, for some MFIs it was found that if any borrower was willing to prepay the entire loan amount, the client was penalized and charged the entire loan period's interest. On this issue Malegam Committee has recommended (para 5.9 b iii) that the tenure of the loan should not be less than 12 months and the borrower has the right of prepayment of

their loan amount without penalty charges. Thus, the study concludes that majority of the sample MFIs in Assam recover their loans in 12 months and the loan repayment period varies from 1 month to 48 months. Another important finding of this study is that penalty is charged by some sample MFIs for loan prepayments.

(14) **Guarantor's Attendance:** The study reports that majority (58.8%) of the sample MFIs do not require the guarantor's presence at the office of the MFI before disbursing the loan to their clients.

(15) **Purpose of the Loan:** The results of the survey indicate that majority (94.1%) of the sample MFIs of Assam are giving loans to their clients for agricultural purposes. The other important purposes of the loan are opening a shop (85.3%), poultry (82.4%), handloom (76.5%), diary (73.5%), piggery (70.6%), fishery (70.6%), handicraft (58.8%), shop renovation (58.8%), education (52.9%), health (50%), petty trading (47.1%), transportation services (29.4%), nursery/plantation (17.6%), weaving (14.5%), artisans (8.8%) and others (46.4%). Here other purposes includes – consumption, marriage purposes, milk vending, stationery/grocery shops, tea stall, repaying loans taken from moneylenders, tailoring, masala (spices) preparation, sugarcane cultivation, maternity purposes, sericulture, terracotta, duckery, mustard cultivation, and pottery items. Therefore, the study finds that the sample MFIs are giving loans to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, medical purpose, shop/home improvement are having less preferences.

(16) **Mode of Loan Delivery:** The results of the survey indicate that majority (61.8%) of the MFIs deliver the loan amount to their clients at the office of the MFI. It has been seen that the mode of payment of the majority of the MFIs is through cheque. Further it was found that for smaller loan amount of less than Rs.3000, the disbursement is done through cash and for higher loan amount, it is paid through cheques.

(17) **Processing Fees Charged by the MFIs:** The study finds that majority (82.4%) of the sample MFIs charge processing fees whereas some (17.6%) of the MFIs do not charge any processing fees from their clients. The study shows that the

average processing fees charged by the sample MFIs is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. Further it has been observed that there is no uniformity in the processing fees charged by the sample MFIs of Assam and in some cases it is fixed per loan, whereas in some cases it varies from zero to a maximum of 12% of the loan amount.

(18) **Collection of Processing Fees:** The study reveals that majority (64.7%) of the MFIs collect the processing fees before the loan disbursement from their borrowers. Some of the MFIs, on the other hand, collect the processing fees later on with the loan repayments.

(19) **Interest Rate Charged by the MFIs:** The result of the survey reveals that 55.9% of the sample MFIs prefer flat rate of interest whereas 44.1% of the sample MFIs charge interest rate on reducing balance. The average annual flat rate of interest has been found to be 16.63% with a minimum of 8% and maximum of 24%. On the other hand, the average annual interest rate on reducing balance is found to be 18.20% with a minimum of 7% and maximum of 30%. Malegam committee recommended that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs. 100 crores and a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of an amount not exceeding Rs. 100 crores. There should also be a cap of 24% on individual loans (Malegam Committee Report, 2011, para, 7.11). It has been observed that of the sample MFIs who charge flat rate of interest, 31.6% of the sample MFIs charged 15% flat rate of interest per annum from their borrowers whereas 26.3% of the MFIs charged 24% flat rate of interest per annum. It has been found that all the sample MFIs who charge flat rate of interest, are charging less than 24% flat rate of interest per annum from their borrower. Further the data reveals that out of the MFIs charging reducing rate of interest, majority (93.33%) of the MFIs charge less than 24% reducing rate of interest per annum from their borrowers. Only one MFI is found to be charging 30% reducing rate of interest per annum from their borrowers. Thus, it may be concluded that the rate of interest charged by the

sample MFIs of Assam may not be regarded as a higher rate of interest as it falls in line with the Malegam committee recommendations.

The major findings regarding the microfinance monitoring system of the sample MFIs are given below.

(20) **Frequency of Management Meeting:** The results of the survey indicate that majority (52.9%) of the sample MFIs conducted monthly management meetings to check the regularity of loan repayments of their clients. In some MFIs, daily information is collected by 3 pm and on the same day the concerned Branch Manager checks the status of the clients' repayments on their daily updated software. In case of some other MFIs, it has been seen that daily Management Information System (MIS) Demand Sheet is generated and the concerned Branch Manager distributes it daily to the Field Officer. In the evening the Branch Manager checks the passbooks of the clients and evaluates the regularity of the clients' repayments. Therefore, it may be concluded that for majority of the sample MFIs, the management meets monthly to monitor their microfinance operations and some of the MFIs monitor on daily basis.

(21) **Allocation of Persons for Loan Monitoring:** The study finds that majority (55.9%) of the sample MFIs of Assam are having more than four persons for monitoring their loan repayments.

(22) **Frequency of MFI Officials' Visit to their Clients:** It has been observed that majority (61.8%) of the MFI officials visit their clients on a monthly basis to have an idea of their current repayment status. The study concludes that majority (91.2%) of the MFIs in Assam collect their loan repayments in monthly installments which conforms to the recent Malegam Committee (2011) guidelines whereas only a few MFIs collect their loan repayments in fortnightly, quarterly and half-yearly installments

(23) **Living Standard of the Borrower:** The capacity of the borrowers' subsequent loan repayments largely depends on their present living standards. The results of the survey reveal that majority (79.4%) of the sample MFIs observe the 'value of

clients savings' to assess the present living standard of their clients after availing the loan. It may be concluded that majority of the sample MFIs of Assam, indirectly monitor the living standard of the borrower after availing the loan by observing three factors viz., (i) value of clients' savings, (ii) level of income, and (iii) increase in durable goods.

(24) **Monitoring the Characteristics of the Clients' Enterprises:** It has been observed that all (100%) the sample MFIs monitor "value of enterprises' sales" as it is considered to be an important factor that determines the subsequent loan repayment capacity of the borrower. 26.5% of the sample MFIs consider the level of fixed assets of the enterprise to be an important factor that determines the repayment capacity of the borrower. On the other hand, a few MFIs feel that increase in the number of employees of the borrowers to be an important indicator relating to the borrowers' loan repayment capacity.

(25) **Issuing Notice to the Clients:** The results of the survey indicate that majority (61.8%) of the sample MFIs of Assam issue quarterly notice to their clients in case of non-payment of their periodic loan installments. In some MFIs, the Credit Officer follows up the borrower on the same day of non-repayment of the loan installment and the Branch Manager visits the borrower after seven days. Some MFIs also send legal notice when the borrowers do not repay three subsequent loan installments. In some cases, it was seen that the Credit Officer fixed a date as per the convenience of the client & then follow up was done accordingly. Thus, the study concludes that the sample MFIs adopt different methods to tackle the issue of non-repayment of loan installment and majority of them prefers to send an official notice after three months of non-payment to their clients.

(26) **Actions Taken for Loan Recovery:** The data reveals that majority (88.2%) of the sample MFIs prefers repetitive visits as well as giving verbal warning to their clients in case of non-payment of the loan. The study concludes that the sample MFIs adopts different means to solve the problem of non-payment of loans by adopting some techniques like, giving verbal warning, making repetitive visits, issuing official notice, understanding the reasons of non-payment, giving

business guidance, threatening to file a case and lastly possessing the physical goods of the borrower.

(27) **Collection of Loan Repayments:** The study concludes that majority of the sample MFIs collect the loan repayments at the place of residence or work place of the borrower, which is not as per the recommendation of the recent Malegam Committee Report of 2011.

(28) **Reminding Clients of their Repayment Dates:** The study reports that majority of the sample MFIs remind their clients about their periodic repayments. The study concludes that majority of the sample MFIs of Assam are proactive and put extra effort by reminding the borrowers about their next repayment date even after providing the repayment schedule.

(29) **Emphasize the Importance of Timely Repayment:** The study finds that all the sample MFIs emphasize the importance of timely payments to their borrowers by different ways like conducting Compulsory Group Training (CGT), organizing monthly meetings and taking of oath by the clients that they will repay the loan.

(30) **Penalty Charges for Late Repayments:** The results of the survey indicate that majority (55.9%) of the sample MFIs charge penalty for any delay in the periodic loan installments. The study also finds that the average penalty charged by the sample MFIs was 4.31% of each periodic installment to be paid by the borrower. On the other hand, some MFIs only charge a fixed amount of only Rs.5 per delay irrespective of the loan installment amount. Analysing the distribution of the penalty charged by the sample MFIs, it has been observed that majority of the MFIs charge 2% of the loan installment as a penalty for any delay in the periodic loan installments. A few MFIs are also found to be charging a penalty amount as high as 40% of the periodic installment. The recent Malegam Committee (2011) has recommended that there should be only three charges of the loan, namely (i) a processing fee, not exceeding 1% of the gross loan amount (ii) the interest charge and (iii) the insurance premium. Only the actual cost of insurance should be recovered and no administrative charges should be levied (para, 8.7 a, b).

Finally, the study concludes that majority of the sample MFIs are taking penalty charges from the borrower which is not in the line of Malegam Committee recommendations and there is no uniformity in the rate of penalty charged by the sample MFIs; it varies from zero to a maximum of 100% of the periodic loan installment.

7.2. Recommendations

Based on the conclusion derived from the research, the following suggestions are put forward:-

1. Based on the financial ratio analysis, it is found that the sample MFIs of Assam are earning higher profitability compared to Indian and Asian MFIs. Therefore, utmost care should be taken by the MFIs to maintain their profitability without compromising their social performance.

2. The portfolio at risk (PAR 30) which is found to be approximately 7% should be a cause of concern for the sample MFIs. So it is suggested that utmost care and specific strategy should be taken by the sample MFIs to reduce their PAR 30, at least to the level of Indian or Asian benchmark (0.40%).

3. The present study finds that the sample MFIs are performing well in most of the performance dimensions of profitability, sustainability, efficiency, risk and financial management, but the performance on majority of the productivity dimension of the MFIs are not found to be satisfactory. The sample MFIs need to improve on productivity parameters viz., borrowers per staff, loans per staff member, and loans per loan officer and chalk out specific course of action to brings these parameters to at least closer to the National level.

4. The average social performance score obtained by the sample MFIs is 49% which is very low. The sample MFIs are more inclined towards the first dimension i.e., outreach to the poor and excluded compared to the other three performance dimensions. So, it is suggested that the sample MFIs need to

focus on their overall social performance with respect to the different performance dimension of adaptation of the services and products to the target clients, improvement of social and political capital of the clients and social responsibility of the institution along with the first performance dimension of outreach to the poor and excluded.

5. As per the Malegam Committee recommendations (para 5.9 b, iv), all loans of the MFIs should be without collateral. The study revealed that 26.5% of the sample MFIs need collateral before disbursing loan to their clients. Therefore, it is strongly suggested that the MFIs that seek some collateral from their clients for loan disbursement do away with this practice. It is desirable that in the event of default, the borrower does not lose possession of assets which s/he may need for her/his continued existence.

6. The present study finds that majority of the average SHG and JLG loan size of the sample MFIs conforms to the Reserve Bank of India guidelines of maximum loan amount of Rs.35,000; but some of the individual loan size of the MFIs is higher than the benchmark set by the RBI. As the individual loan size is higher, it is strongly suggested that the sample MFIs of Assam must provide loan below Rs.35,000 which qualifies as a microfinance loan.

7. The study revealed that some MFIs are collecting the entire loan periods' interest payment as prepayments. It is suggested that the MFIs must do away with such methods for the welfare of their beneficiaries as well as for the overall development of the microfinance industry as a whole.

8. The present study shows that the average processing fees charged by the sample MFIs is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. The MFIs that are taking higher processing fees must lower it and bring it to a maximum of 1% as per the guidelines of Malegam Committee recommendations and promote healthy practices in the microfinance industry as a whole.

9. The present study finds that majority (91.2%) of the sample MFIs of Assam collect their loan repayments in monthly installments which conform to the recent Malegam Committee (2011) guidelines whereas only a few MFIs collect their loan repayments in weekly, fortnightly, quarterly or half-yearly installments. It is suggested that all the MFIs should collect their loan repayments in monthly installments or else decide jointly with the borrowers, as the borrowers often have uncertain levels of income flows.

10. The study concludes that majority of the sample MFIs collect the loan repayments at the place of residence or work place of the borrower which may encourage a 'coercive' method of loan recovery and is not regarded as a healthy practice. If the loan repayments are collected at a designated place of recovery like, Gram Panchayat office or any other place distant from the borrowers' place of residence or work, this would reduce time and cost of the MFIs.

11. The present study reveals that majority (55.9%) of the sample MFIs charge penalty for any delay of the periodic loan installments. The study further finds that the average penalty charged by the sample MFIs was 4.31% of each periodic installment to be paid by the borrower. Analysing the distribution of the penalty charged by the sample MFIs, it has been observed that majority (29.4%) of the MFIs charge 2% of the loan installment with a maximum up to 40% of the periodic installment. Therefore, it is strongly suggested that the sample MFIs that are practicing this unethical exercise must stop this for the welfare of their beneficiaries and development of microfinance sector in Assam.

7.3. Specific Contribution of the Study

The findings of this study highlighted some important issues on the performance dynamics of the sample MFIs of Assam. Microfinance sector is fast growing in India and in the state of Assam it is at a nascent stage. The microfinance sector in Assam is wholly unorganized and therefore there is lack of information about the MFIs operating in the state. For some of the important performance dimensions viz., return on assets, return on equity, portfolio at risk, debt equity ratio, operational self sufficiency, provision expenses, funding expenses, cost of funds, subsidy dependence, repayment rates, client turnover, etc. no benchmarks are available for the MFIs of Assam so far. The present study finds the average performance of the MFIs and also provides sample averages in these dimensions which may be considered as a benchmark and can help the future researches, practitioners, donors and other stakeholders of microfinance industry to explain the performance dynamics of the MFIs. Most of the MFIs have never done an internal evaluation of their social performance by using the SPI tool in Assam. The study also highlights the social performance of the MFIs. The study highlights some of the healthy practices of the sample MFIs of Assam. However, the study also reports that there is no uniformity in the microfinance practices and some of the MFIs are violating the Reserve Bank of India Guidelines. The study has shown a model of understanding the overall performance of the sample MFIs of Assam in terms of financial performance as well as social performance and operating dynamics in terms of microfinance assessment, monitoring and delivery mechanisms. It is expected that the findings of this study would highlight many important issues related to the financial performance, social performance and dynamics of MFIs and may open up avenues for other relevant and useful researches in the line of the performance assessment and the dynamics of MFIs in India and abroad.

7.4. Scope for Future Studies

This study can open up avenues for other relevant and useful researches in the line of the performance assessment and the dynamics of the MFIs in India and abroad. By considering the constraints within which the research has been completed and the constant advancement in the field of microfinance, the following areas are recommended for further research work –

- ✓ A comparative study on the clients' perception and actual impacts of microfinance activities of the MFIs in Assam and India.

- ✓ A comparative study of the performance assessment between the domestic MFIs (registered in Assam) and the MFIs registered in other states.

- ✓ A study on the relationship between the performance assessment of MFIs and their different structure of the microfinance models in operation.

- ✓ A system dynamics study on the performance parameters of the microfinance institutions.

- ✓ A comparative study on the financial and social performance assessment of the MFIs of Assam with other states of India.

- ✓ A study to determine the weights of the financial ratios belonging to different dimensions and obtaining an index which represents the overall financial performance of MFIs.

- ✓ A study to find out the relationship between the financial performance and social performance of the MFIs.

- ✓ A study to analyse and compare the microfinance dynamics in terms of microfinance assessment, monitoring, and delivery practices between the state of Assam and the North-Eastern states.

- ✓ A study to find the inter-relationships and dynamics of the profitability ratios, risk ratios, financial management ratios, sustainability ratios, efficiency ratios and productivity ratios of the MFIs of Assam, India, or Asia.

- ✓ A comparative study to find out the financial performances and social performances of the MFIs with respect to smaller, medium and large MFIs of Assam, India or Asia.

- ✓ A study to find out the impact of the products and services of the MFIs operating in Assam on the socio-economic status of their clients.

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Annexure

ANNEXURE - I

LIST OF MFIs SELECTED FOR THE STUDY

Sl.	Acronyms of MFIs Used	Full Name of MFIs
1	PRDS	Pragati Rural Development Society
2	MZGPS	Morigaon Zila Gramya Puthibharal Sanstha
3	NCS	Nightingle Charitable Society
4	PROCHESTA	Prochesta
5	ASOMI	Asomi
6	GS	Grameen Sahara
7	RGVN	Rastriya Gramin Vikash Nidhi
8	RGVN NEM	RGVN North East Microfinance Ltd.
9	CRD	Centre for Rural Development
10	AAMIVA	Association for Advancement of Micro Institution and Voluntary Action
11	ASC	Ajagar Social Circle
12	GSEDC	Gandhinagar Socio Economic Development
13	AGUP	Anchalik Gram Unnayan Parishad
14	PANCHARATNA	Pancharatna Gramya Bikash Kendra
15	GM	Gwudan Muga
16	WDS	Weavers Development Society
17	BJS	Bishnujyoti Janakalyan Samiti
18	GVM	Gramya Vikash Mancha
19	LSS	Lok Seva Samiti
20	AD	Asha Darshan
21	SATRA	Social Action for Appropriate Transformation and Advancement in Rural Areas
22	SDC	Sipajhar Diamond Club Community Centre
23	AGUS	Associated Gramya Unnayan Society
24	RENEISSANCE	Reneissance
25	MASK	Mahila Sakti Kendra
26	DASK	Doulung Ajon Samajik Kendra
27	JPYS	Jyoti Puthibharal & Yubak Sangha
28	DPYS	Donyi Polo Youth Society
29	ROAD	ROAD
30	RMI	Rainbow Microfinance Institution
31	MACC	Monacherra Athletic & Cultural Club
32	DC	Deshbandhu Club
33	SSUS	Sonali SHG Unnayan Samiti
34	MANDAL	Maandal

ANNEXURE - II

INPUTS REQUIRED TO CALCULATE RATIOS

Balance-Sheet Information (FY 2007-08 to FY 2009-10)
1. Total Assets 2. Total Equity 3. Gross Loan Portfolio 4. Loan-loss Provision Expense 5. Loan Loss Reserve 6. Total Liabilities (Demand) 7. Average funding liabilities 8. Fixed Assets
Profit & Loss Account Information (FY 2007-08 to FY 2009-10)
9. Net Income 10. Interest and Fee Income including fines or penalties 11. Net operating income 12. Operating Revenue 13. Operating Expense 14. Financial Expenses 15. Value of Loans Written Off 16. Loan Loss Provisioning Expense 17. Interest and Fee Expenses 18. Interest Income 19. Profit (losses) 20. Administrative Expenses 21. Personnel Expenses
Other General Information (FY 2007-08 to FY 2009-10)
22. Number of Active Borrowers 23. Number of Active Clients, End of Period 24. Number of New Clients During Period 25. Number of Active Clients, Beginning of Period 26. Total No. of Staffs (Full-Time + Part-Time) 27. Total No. of Staffs Under Microfinance (Full-Time) 28. Total No. of Staffs Under Microfinance (Part-Time) 29. Average Salary (Full Time Staffs Under Microfinance) 30. Number of Loan Officers 31. Value of Loans Disbursed in the Financial Year 32. Total amounts paid by Clients in Current Period 33. Prepayments (by the clients) 34. Total amounts due from Clients in Current Period 35. Total Number of Individual Loans Disbursed in the Financial Year (1SHG Loan with 10 members = 10 loans) 36. Number of Loans Outstanding 37. Portfolio At Risk (PAR>30) 38. Subsidies on Concessional Borrowing 39. Subsidy on equity 40. Miscellaneous Grants 41. Donations (Non-refundable) 42. Total Subsidy 43. Unpaid Principal Balance of all loans with payments > 30 Days past due
Other Secondary Data (FY 2007-08 to FY 2009-10)
44. Average Rate of Inflation 45. Market Interest Rate (Rate that CBs would charge to lend to MFIs/NGOs) 46. Other implicit Costs 47. GNP Per Capita 48. Cost of Inflation 49. Cost of Liabilities 50. Adjusted Expenses

ANNEXURE - III

QUESTIONNAIRE FOR SOCIAL PERFORMANCE MEASUREMENT*

1. According to the senior management of the MFI , how much weight do the following possible objectives carry for the MFI (0= minor objective, 1=important objective): -

   (a) Financial sustainability☐0 ☐ 1. If 1 pls. specify____________________________________

   (b) Outreach to the poor ☐ 0 ☐ 1. If 1 pls. specify____________________________________

   (c) Positive impact on income of clients ☐0 ☐ 1. If 1 pls. specify____________________________

   (d) To the excluded (women, illiterate individuals, unsecured workers etc.)☐0 ☐ 1_______________

   (e) Positive impact on education and social status of clients and their family members ☐0 ☐ 1_____

2. Does the MFI management keep to the social mission of the MFI?

   (0=nothing is done in particular; 1=the mission is clearly stated in the internal rules and regulations; 2=attention given to the composition of the governance structure or external audit)

   Score☐0 ☐ 1 ☐ 2. If answer is 2, specify: ____

3. Does the MFI provide loans (0 = never, 1= less than 30% of the loans, 2 = more than 30%) to:

   (a) urban areas. Score ☐ ☐ ☐Percentage of loans: __ (b) rural areas. Score ☐0 ☐ 1 ☐ 2. % of loans ______

   (c) workers with insecure status (no assets and uncertainty on daily employment e.g. casual laborers, landless tenants, etc). Percentage of loans: _____ Score ☐0 ☐ 1☐ 2

   (d) women. Percentage of loans: _______ . Score☐0☐1☐ 2

   (e) illiterate individuals. Percentage of loans: ________ Score ☐0 ☐1☐2

4. Do you use any targeting devices for improving the depth of poverty outreach of your MFI: (no=0; yes=1). Example of indicators: indicators based on objective client conditions (illiteracy, farm or microenterprise size, housing index, assets, etc.); participatory wealth ranking (information given by the community itself)

   Targeting device: ______________________ Score ☐0 ☐1

5. Over the last 12 months (or last financial year), what is the distribution of the amount of the loans?

   (a) Total number of loans given over the year: __________

   (b) No. of loans below 50% of GDP/Cap: __________ %: ______ (<Rs.22,173)

   (c) No. of loans between 50 and 100% of GDP/Cap :__________ % : _______ (Rs.22,173 – 44,345)

   (d) No. of loans above 100% of GDP/Cap:__________ %: ________________ (>Rs.44,345, for 2009-2010)

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*This questionnaire was adopted from the Social Performance Indicators Initiatives (SPI) Report No – 4 as developed by developed by Cerise and its partners in 2003, was the precursor of a method to measure social performance. The SPI tool works by assessing the "social process" (via a questionnaire) based on four key dimensions.

(0=all the loans are above 100% of GDP/Cap; 1= less than 30% of the loans are below 50% of GDP/Cap but some of the loans remain below 100% of GDP/Cap; 2= 30% of the loans are below 50% of GDP/Cap)

Score☐ 0 ☐ 1 ☐ 2

6. At the time of the survey, what is the distribution of the amount of the savings account (demand deposits)?
   Total number of demand deposits: ___________

   (a) No. of demand deposits below 50% of GDP/Cap:_________ % : _________ (<Rs.22,173)

   (b) No. of demand deposits between 50 and 100% of GDP/Cap :________ % : ____ (Rs.22,173 – 44,345)

   (c) No. of demand deposits above 100% of GDP/Cap:_______ %: _______ (>Rs.44,345, for 2009-2010)

   (0=all the demand deposits are above 100% of GDP/Cap; 1= less than 30% of the demand deposits are below 50% of GDP/Cap but some of the demand deposits remain below 100% of GDP/Cap; 2= 30% of the demand deposits are below 50% of GDP/Cap) Score ☐ 0 ☐ 1 ☐ 2

7. Over the last 12 months, what is the minimum size of savings account (in % of GDP per capita) (0=more than 10 percent of GDP p.c.; 1= up to 10 percent of GDP p.c.)?
   Size in local currency: ____________ % of GDP p.c.: __________Score ☐0 ☐ 1 ☐ 2

8. Does the MFI agree to provide loans only secured by "social" collateral (i.e. solidarity among groups, recommendation by trusted third party, physical guarantees which have very low commercial value but are important for the borrowers)? (0 = Never, 1= for less than 30 % of the loans, 2= for more than 30% of the loans). Percentage of loans: _________ Score ☐0 ☐ 1☐ 2
9. How many different types of loan products does the MFI provide? (0=only one; 1= 2 or 3; 2 = more than 3)
   Score ☐0☐ 1 ☐ 2

10. Does the MFI provide consumer /emergency loans? (0=no; 1=yes) Score ☐0 ☐ 1
11. Does the MFI provide loans from 0 to 6 months? (0=no; 1=yes) Score☐ 0 ☐ 1
12. Does the MFI provide loans from 6 to 12 months? (0=no; 1=yes) Score☐ 0 ☐ 1
13. Does the MFI provide loans above 12 months? (0=no; 1=yes) Score☐ 0 ☐ 1
14. How many different types of voluntary savings products does the MFI provide?
    (0=no savings products; 1= 1or 2; 2= more than 2) Score ☐0 ☐1 ☐2

15. Does the MFI provide insurance products (except death insurance for loans, see below)?
    (0=no; 1=yes) Score ☐ 0 ☐ 1

16. Flexibility of repayment (0= only one program fixed by the MFI, 1=the programme proposes different schedules; 2=the schedule is decided with the clients when receiving the loan) Score☐ 0☐ 1 ☐2
17. Decentralisation: In rural areas, what is the maximum distance clients travel to receive a loan or make a deposit (0= more than xx km; 1 = less than xx km) Score☐ 0 ☐ 1

18. Prompt delivery of the loans: what is the frequency of the meetings of the credit committee (or of the decision taking for loan delivery by the loan officers) to decide to grant the loans to a borrower? (0=up to once a month; 1= more than once a month) Score ☐0 ☐1
19. Has the MFI ever conducted market surveys (in particular with the analysis of the household budgets) to improve the quality of services to the clients? (0=never; 1=only at the beginning; 2=sometimes on irregular basis; 3= regularly, planned in the strategy of the MFI) Score☐ 0 ☐ 1☐ 2☐ 3
20. Percentage of client drop-out or inactive clients (no transaction on credit and savings for more than one year) over the last 12 months (or last financial year) [number of drop-outs over the average number of clients over the last 12 months/financial year] 0=more than 30%; 1=10-30%; 2=less than 10%. Score 0☐ 1☐ 2☐
21. Has the MFI ever conducted surveys on client drop-outs? (0=never; 1=done, or % of dropouts less than 5%) Score ☐ 0 ☐ 1
22. Does the MFI ensure that the clients can have access to the following non financial services? (within the same organization or thanks to formal partnership and cooperation with other local organization): Non financial services related to financial and economical management of the loan : business training, management of family budget, access to market, innovation, etc. (no=0, for some clients (or for all but on a compulsory basis)=1; for all clients of a voluntary basis=2)) Score ☐ 0 ☐1☐2
23. Non financial services related to social needs: litteracy training, health services, access to social workers, etc. (no=0, for some clients =1; for all clients of a voluntary basis=2)) Score ☐0 ☐ 1☐2
24. Has the MFI ever used tools (such as meetings, surveys or focus-group discussions) to involve its clients in the design of the services provided ? (no=0, for the early stages of the MFI=1, regularly (i.e. at least once a year)=2) Tool(s) : ________________________________ Score ☐ ☐ ☐
25. Does the loan statement differentiate between the amount of the principal and the amount of the interests and fees to be paid in order to give clear information to the borrowers? (no=0, yes=1) Score☐ 0 ☐ 1
26. Do the clients receive written statements on each of their loan transactions? (no=0, yes=1) Score ☐0 ☐ 1
27. Do the clients receive written statements on each of their savings transactions? (no=0, yes=1) Score☐0 ☐1
28. Do the clients have access to the MFI's annual accounts? (no=0, yes=1) Score☐ 0☐ 1
29. Do the clients of the MFI elect representatives to any representative body in:
    (a) Consultation (no=0, yes=1) Score ☐ 0 ☐ 1
    (b) Decision making (no=0, yes=1) Score ☐0 ☐ 1
    (c) Control (no=0, yes=1) Score ☐ 0 ☐ 1
30. Do these bodies have an effective impact on decision making and actions of the MFI management? (0=no; 1=yes). If the answer is 1, precise the changes: ______________________ Score ☐ ☐
31. How often do these bodies meet staff managers? (0=never; 1=once a year; 2= regularly and as often as required by the representatives) Score☐0 ☐1 ☐2
32. Is there a system of rotation of the elected members? (no=0, yes=1) Score ☐ 0 ☐ 1
33. Is there a system of training of representatives / elected members (no=0; yes, on an irregular basis=1; yes, on a regular basis, planned in the strategy and related to the rotation of representatives=2) Score ☐ 0 ☐ 1 ☐ 2

34. What is the percentage of women among client representatives (compared to % of women among all clients) (0= no women representative; 1= few women representatives; 2= the same proportion as female clients)
Score ☐ 0☐ 1☐ 2

35. Have the MFI's operations sought to strengthen the social cohesion of the local community it is serving? (no = 0; indirect, minor objective=1; direct, major objective=2). Score ☐ 0☐ 1 ☐ 2
If score 1 or 2, describe: ____________________

36. Have the MFI's operations sought to increase the voice its clients have in the local (or national) government? (no=0; indirect, minor objective=1; direct, major objective=2) Score ☐ 0☐ 1 ☐2
If score 1 or 2, describe: ____________________

37. Does the MFI provide leadership training for the clients (team building, representation, etc.)? (no=0, yes, on an irregular basis=1; yes, on a regular basis, planned in the strategy=2) Score☐0☐1☐2

38. On a scale from 0 (no effect) to 2 (large influence), how does the MFI rank its power to influence the decisions concerning the public policy of the local government? Score ☐ 0 ☐1 ☐2

39. On a scale from 0 (no effect) to 2 (large influence), how does the MFI rank its power to influence the decisions concerning the public policy of the national government? Score ☐ 0☐ 1☐ 2

40. What is the starting annual income (with bonuses) for loan officer compared to that of a school teacher (primary school) in the community? (0=much lower; 1= about the same; 2= higher) Score☐ 0☐ 1☐ 2

41. What is the annual budget for training of employees (as a % of budget p.a.)? (0=less than1%; 1= between 1 and "x" %; more than "x" %) Score ☐0☐ 1☐2

42. Can the employees participate in decision-making? (no=0, through dialogue or consultation between staff and direction=1, through a consultative elected body or through participation in the governance=2)Score ☐0 ☐1☐2

43. Does the MFI ensure that the employees have access to some type of health coverage?(no=0, yes=1)Score☐0☐1

44. How many employees have left the MFI during the last 12 months, as a percentage of the average number of employees? (0= more than "y"%; 1= less than "y"%; 2= no departure Score☐ 0☐ 1☐ 2

45. Has the MFI ever conducted socio-economic studies to assess the situation of the clients? (0=never and not planned; 1=planned in a near future (within one year); 2=once; 3=regularly (e.g. every year or system of continuous awareness) Score ☐ 0☐ 1☐ 2☐ 3

46. Has the MFI ever had to change its products and services due to negative impact on social cohesion or welfare of its clients? (0=not a major preoccupation for the MFI; 1= studied but no changes so far; 2= studied and no problems recorded or changes made after identification of the problem) Score ☐0☐ 1☐2
If score=2, describe: ____________________

47. Does the MFI provide some type of insurance that frees the family from the burden of debt in case of death of the borrower? (0=no; 1= yes) Score☐ 0☐ 1

48. Does the MFI propose specific measures (such as rescheduling of the loans) in case of natural disaster? (0=no; 1= yes) Score ☐ 0☐ 1

49. Does the MFI take care that its actions are compatible with the local culture and values (through surveys and studies, through discussions with local authorities, key resource persons from the community, etc.)? (0=no specific action; 1=information collected at the beginning ; 2= information collected on a regular basis (ex. once every 2 or 3 years) If the answer is 1 or 2, sources of information : ____________Score ☐0 ☐1 ☐2

50. Does the MFI work with local loan officers who can speak the local language and know the local culture (no=0, some of the loan officers know the local culture and language=1, most of the loan officers know the local culture and language =2) Score☐0 ☐1 ☐2

51. How often has the MFI assisted the local community through financial support (grants or loans) for community projects (school, hospital, church, mosque, temple, etc.): 0= never; 1= seldom (only once every 3 or 4 years); 2=every 2 years; 3= once a year or more Score ☐ 0☐1 ☐2☐3

    If scores 1, 2 or 3, describe investments: ______________________________

52. Has the MFI ever had to change its products, services or way of functionning due to negative impact on social cohesion or welfare of the community ? (0=not a major preoccupation for the MFI; 1= studied but no changes so far; 2= studied and no problems recorded or changes made after identification of the problem) Score ☐ 0☐ 1 ☐2

    If score=2, describe: ______________________________

Signature:________________	Designation: ______________

ANNEXURE - IV

QUESTIONNAIRE FOR MICROFINANCE ASSESSMENT

1. What are the different categories of beneficiaries?
   - (a) SHG ☐ (e) Weavers ☐
   - (b) JLG ☐ (f) Women ☐
   - (c) Businessmen ☐ (g) Govt. Service Holders ☐
   - (d) Farmers ☐ (h) Others__________

2. What are the pre-requisites for a person to open a Recurring/Fixed Deposit/Loan account with your organisation?
   - (a) Must be a member ☐
   - (b) Must have a membership for the last 6 months ☐
   - (c) Must have a bank pass book ☐
   - (d) Others__________

3. What are the documents required to open a Recurring/Fixed Deposit/Loan account with your organisation?
   - (a) Photograph ☐ (e) License of the Shop ☐
   - (b) Electricity bill ☐ (f) Nominee Declaration ☐
   - (c) Residential/Address proof ☐ (g) Identity Card (Panchayat etc.) ☐
   - (d) Service proof ☐ (g) Others__________

4. What are the conditions to be fulfilled for a person to avail a loan from your organisation?
   - (a) Must submit a business plan ☐ (f) Deposit the business license ☐
   - (b) Loan agreement ☐ (g) Mortgage the business/shop ☐
   - (c) Must have a Guarantor ☐ (h) Salary certificate, if employed ☐
   - (d) Must be a member ☐ (i) Buyback agreement ☐
   - (e) Must have a Bank account ☐ (j) Others__________

5. Is Collateral required for getting a loan from your organisation?
   - (a) No ☐
   - (b) NSC/KVP ☐ (f) Land documents ☐
   - (c) Bank FD ☐ (g) Must be a owner of a plot of land ☐
   - (d) LIC/Any Insurance Policy ☐ (h) Any physical assets ☐
   - (e) Cash ☐ (i) Others__________

6. How do you assess the beneficiaries?
   - (a) Visit client's business location to verify the plan ☐ (g) Meet the Guarantor ☐
   - (b) In official/informal meetings/discussion ☐ (h) Age of the SHG/JLG etc ☐
   - (c) No. of Monthly meetings during the last 6 months ☐ (i) Savings regularity ☐
   - (d) Groups in internal Loaning ☐ (j) Maintenance of books & records ☐
   - (e) Physical verification of assets/stocks ☐ (k) Own assessment format ☐
   - (f) Only verify the documents ☐ (l) Others__________

7. How many different levels of assessment are required to judge creditworthiness of the beneficiaries?
   - (a) Agent/Area Collector assessment ☐ (e) Single person (Secretary/President etc) decides ☐
   - (b) Meeting with the clients ☐ (f) Management Committee meetings ☐
   - (c) Loan Officer assessment ☐ (g) Executive Body meeting ☐
   - (d) Loan Committee meetings ☐ (h) Others__________

ANNEXURE – V

QUESTIONNAIRE FOR MICROFINANCE DELIVERY

8. Do you provide any assistance to the beneficiaries in filling up the application form?
   - (a) Yes ☐
   - (b) No ☐
   - (c) Application not required ☐

9. The average time required to open a…
   - (a) Recurring Deposit _______ days
   - (b) Fixed Deposit _______ days
   - (c) Savings Deposit _______ days

10. The average time required to disburse a/an…
    - (a) Loan _______ days
    - (b) Emergency loan _______ days

11. Who is the sanctioning authority for the loan?
    - (a) A single person. ☐ His designation ____________________
    - (b) A committee. ☐ Committee Name ____________________
      Committee members____________________

12. What is the minimum & maximum stipulated loan amount?
    SHG JLG Individual
    - (a) Minimum amount Rs.____________________
    - (b) Maximum amount Rs.____________________
    - (c) Not exactly specified ☐

13. What is the minimum & maximum time of repayment stipulated for loan repayment?
    - (a) Minimum _________ months. (c) No maximum time limit ☐
    - (b) Maximum _________ months. (d) Others ____________________

14. Does the guarantor need to be present with the client at the time of taking the loan?
    (a) Yes ☐ (b) No ☐

15. What are the purposes of the loans?
    - (a) Piggery ☐ (e) Agriculture ☐ (i) Handloom ☐
    - (b) Poultry ☐ (f) Health ☐ (j) Handicrafts ☐
    - (c) Fishery ☐ (g) Education ☐ (k) Nursery/Plantation ☐
    - (d) Dairy ☐ (h) Open a shop ☐ (l) Others ____________________

16. The approved loan amount is handed over to the client -
    - (a) At Client's place ☐
    - (b) At MFI/NGO Office ☐ (c) Others____________________

17. Do you charge any processing fees?
    (a) Yes ☐ (b) No ☐ (c) if yes, processing fees is___________

18. What is the lending rate of interest you charge from your clients?
    (a) Flat_____________ (b) Reducing_____________

19. If yes, how do you collect the processing fees from your clients?
    - (a) Collected before the loan disbursal. ☐
    - (b) Later along with the loan repayments ☐
    - (c) Others____

ANNEXURE – VI

QUESTIONNAIRE FOR MICROFINANCE MONITORING

20. How frequently does the management meet to check the regularity of loan repayments?
    (a) Weekly ☐ (c) Monthly ☐ (e) Half-yearly ☐
    (b) Fortnightly ☐ (d) Quarterly ☐ (f) Others________

21. How many persons are assigned to monitor the loans?
    (a) One ☐ (b) Two ☐ (c) Three ☐ (d) Four ☐ (e) More than Four ☐

22. (i) How frequently do the MFI officials visit the borrower?
    (a) Weekly ☐ (c) Monthly ☐ (e) Half-yearly ☐
    (b) Fortnightly ☐ (d) Quarterly ☐ (f) Others________
    (ii) What is the periodicity of loan repayments specified by the MFIs?
    (a) Weekly ☐ (c) Monthly ☐ (e) Half-yearly ☐
    (b) Fortnightly ☐ (d) Quarterly ☐ (f) Others________

23. Do you observe whether the living standard of the borrower has increased, after availing the loan, in terms of increase in -
    (a) Durable Goods ☐ (d) Value of Client Savings ☐
    (b) Expenditure on Food ☐ (e) Entertainments ☐
    (c) Level of Income ☐ (f) Others________

24. Do you monitor the characteristics of the Enterprises (to have an idea on the repayment capacity of the borrower) in terms of -
    (a) Value of Enterprise Sales ☐ (c) Number of Employees ☐
    (b) Fixed Assets of Enterprise ☐ (d) Others________

25. After how many days of non-repayment of loan, is a notice sent to the beneficiaries?
    (a) A week ☐ (d) A Quarter ☐
    (b) A fortnight ☐ (e) A half year ☐
    (c) A Month ☐ (f) Others________

26. What action is taken to recover the loan?
    (a) Verbal warning ☐ (d) Threatening to file a case ☐
    (b) Repetitive visits at the client's place ☐ (e) Business Guidance ☐
    (c) Issue an official notice ☐ (f) Possession of physical goods ☐
    (d) Understand the reasons of non-payment ☐ (g) Others________

27. Where do you collect the loan repayments?
    (a) At the Office ☐ (b) At client's location by agents ☐

28. Do you remind your clients of their repayment dates?
    (a) Yes ☐ (b) No ☐

29. Do you emphasize the importance on timely repayment to your clients?
    (a) No ☐ (b) Yes ☐ (c) If yes, please specify________

30. Do you charge any penalty if the loan installments are not paid on due dates?
    (a) No ☐ (b) Yes ☐ (c) If yes, penalty amount Rs.______ per late repayment

31. Any other information that you wish to share:________

ANNEXURE – VII

QUESTIONNAIRE FOR DEMOGRAPHIC PROFILE OF MFIs

1. Name & Address of the MFI:

   ____

2. Age of the MFI : ____________________

3. Year of starting microfinance activity : ____________________

4. Total number of clients : ____________________

5. Number of active borrowers : ____________________

6. Number of branches: ______________________________

7. Type of institution: ______________________________

8. For-profit or Non-profit: ______________________________

9. Geographical area of activity: ______________________________

10. Total Number of Staffs (Full Time + Part Time): ____________________

ANNEXURE – VIII

SOURCE OF LITERATURES

Sources of Literatures	Nos.	In Percentage
International Conference Publications	3	4
International Peer-reviewed Journals	28	39
University Reports / Unpublished Reports	19	27
Development Organization Reports	21	30
Total	71	100

ANNEXURE – IX

SAMPLE SIZE IN SIMILAR STUDIES FOUND IN THE LITERATURE REVIEW

Author	Year	Sample Size	Place	Area Cover (in Sq. Mile)
Alain de Crombrugghe, Michel Tenikue and Julie Sureda	2008	42	India	12,69,210
Ben Soltane Bassem	2008	35	Mediterranean zone	3,28,100
Gutierrez-Nieto B, Serrano-Cinca C, Molinero C M	2007	21	Latin American	78,80,000
Befekadu B. Kereta	2007	26	Ethiopia	4,26,371
Imène Berguiga	2007	21	Middle East and North Africa	37,17,796
Gutie´rrez-Nieto et al.	2005	30	Latin America	78,80,000
Proposed Study	2010	40	Assam	30,328

ANNEXURE – X

COUNTRIES CONSIDERED IN EMPIRICAL STUDY WORLDWIDE FOUND IN THE LITERATURE REVIEW

Countries	No of
Africa	2
Africa, Asia and the Latin America	2
Banco ProCredit Nicaragua	1
Bangladesh, Pakistan and India	1
Burkina Faso	1
Central And Eastern Europe and the Newly Independent	1
East African countries.- 4 nos	1
Eastern Europe and Central Asia (ECA) region	2
Ethiopia	2
Geneva	1
Ghana / Ghana (sub-Saharan Africa).	2
India	1
Kenia	1
Latin America	4
Mediterranean zone	1
MENA Countries	1
Mexico	1
Mozambique	1
NA	
Namibia	1
Nepal	1
Peru	1
Philippine	1
Quezon City, Kalookan and Marikina areas	1
South Africa	1
Tanzania	1
Viet Nam	1
Bolivia, Columbia, Dominican Republic, Ecuador, El	1
Worldwide	20
Total	55

Annexure – XI

List of Peer Reviewed Journals Found in the Literature Review

List of International Journals	No. of Articles
Annals of Public and Cooperative Economics	1
Applied Economics	1
Asian Journal of Agriculture and Development,	1
Asia-Pacific Financial Markets	1
Development Southern Africa.	1
International NGO Journal	1
International Review of Business Research Papers	1
Journal of Accounting and organizational change	1
Journal of Development Economics	1
Journal of Economic Studies	1
Journal of International Development	1
Journal of Microfinance	1
Journal of Money, Credit and Banking,	1
Journal of Philippine Development	1
Journal of the Operational Research Society	1
Latin American Business Review	1
Managerial Finance	2
Omega	1
The Economic Journal	2
The European Journal of Development Research	1
The Journal of Risk Finance	1
Transition Studies Review	1
World Development	2
World Institute for Development Economics Research	1
Microfinance and Public Policy	1
Total	28

ANNEXURE – XII

LIST OF UNIVERSITY RESEARCH REPORTS FOUND IN THE LITERATURE REVIEW

List of Universities	No. of Articles
Norway University College of Åstfold	1
European Economic Studies Department	1
University of Saragossa	1
Rice University	1
University of Queensland	1
Glucksman Institute for Research in Securities Markets	1
The Ohio State University	2
University of Nottingham	1
Unpublished Reports	6
NEPRU Research Paper	1
Northwest Nazarene University	1
University of Birmingham	1
Université Libre de Bruxelles	1
Total	19

ANNEXURE – XIII

LIST OF DEVELOPMENTAL ORGANIZATIONS FOUND IN THE LITERATURE REVIEW

List of Developmental Organizations	No. of Articles
CERISE	1
CGAP	4
M-Cril, Argidius, and the SEEP Network	1
IFAD	1
Microbanking Bulletin	2
The World Bank	1
Argidius Foundation and CGAP	1
CGAP and Micro Rate	2
IFPRI	1
Economic Growth Center, Global Bureau USAID	1
International Labor Organization	2
Institute of Development Studies, Imp-Act and Microfinance Centre	1
Microfinance Information eXchange (MIX)	2
The SEEP Network	1
Total	21

ANNEXURE – XIV

PUBLICATION OF EMPIRICAL STUDIES FOUND IN THE LITERATURE REVIEW

Sources	No. of Empirical Studies	In Percentage
International Conference Articles	2	4
International Journal Articles	24	44
University Reports/ Thesis	17	31
Development Organizational Report	12	21
Total	55	100

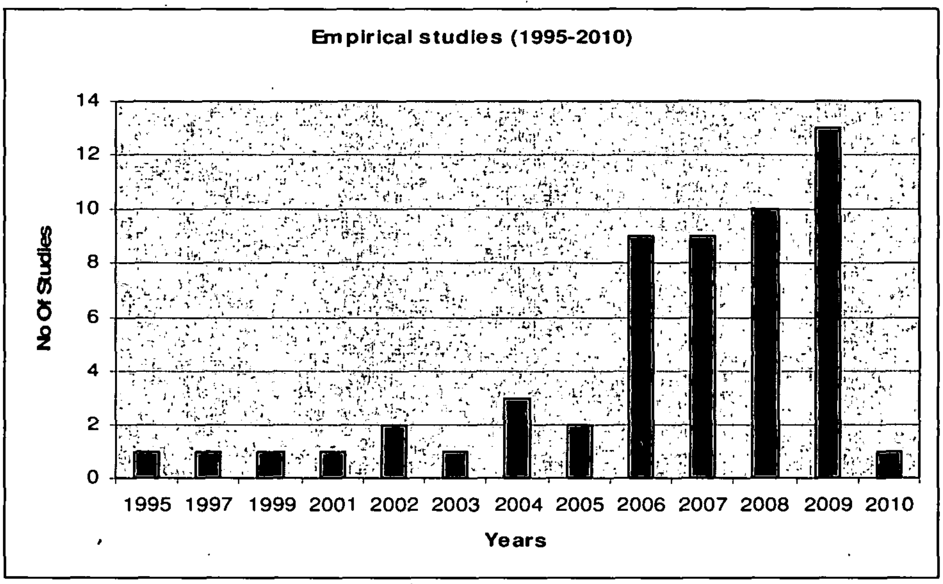
ANNEXURE – XV

PUBLICATION OF THEORETICAL STUDIES FOUND IN THE LITERATURE REVIEW

Sources	No. of Theoretical Studies	In Percentage
International Conference Articles	1	6
International Journal Articles	4	24
University Reports/ Thesis	2	12
Development Organizational Report	9	58
Total	16	100

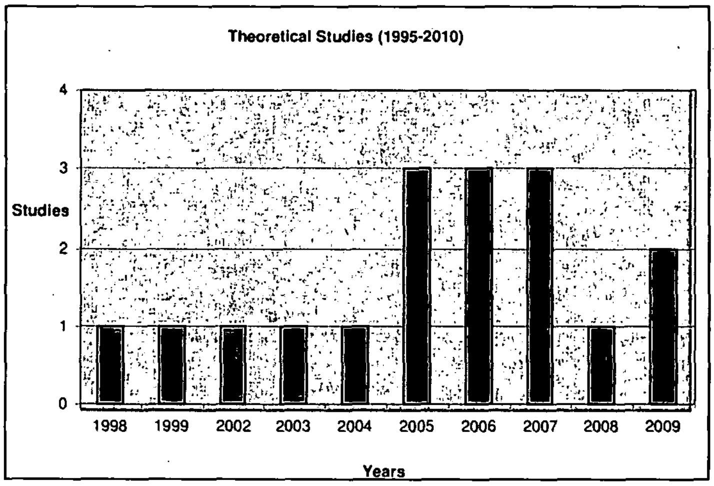
ANNEXURE – XVI

GROWTH OF EMPIRICAL STUDIES FOUND IN THE LITERATURE REVIEW



ANNEXURE – XVII

GROWTH OF THEORETICAL STUDIES FOUND IN THE LITERATURE REVIEW



ANNEXURE – XVIII

REGION-WISE SAMPLE SIZE FOUND IN THE LITERATURE REVIEW

World Regions	Sample Size			
	Maximum	Minimum	Mean	Median
Africa	163	3	40	12
East Asia and The Pacific	38	7	19	11
Eastern Europe and the Central Asia	136	34	63	52
Latin America and the Caribbean	189	1	65	42
Middle East and North Africa	21	21	21	21
South Asia	85	26	49	36
All Regions	1073	18	207	112

ANNEXURE – XIX

PERFORMANCE DIMENSION & LIST OF RATIOS USED IN THE STUDY

Performance	Ratio	Full Name of Ratio Performance
Profitability	ROA	Return on Asset
	ROE	Return on Equity
	PY	Portfolio Yield
	PM	Profit Margin
Risk	PAR(30)	Portfolio at Risk (> 30 Days)
	WOR	Write off Ratio
	RCR	Rick Coverage Ratio
	PER	Provision Expense Ratio
Financial Management	DER	Debt Equity Ratio
	CFR	Cost of Fund Ratio
	PTA	Portfolio to Total Asset Ratio
	FER	Funding Expense Ratio
Sustainability	OSS	Operational Self Sufficiency
	FSS	Financial Self-sufficiency
	SDI	Subsidy Dependence Index
	RR	Repayment Rate
Efficiency	OER	Operating Expense to Loan Portfolio
	CPB	Cost per Borrower
	ASGP	Average Salary to GNI per Capita
	OETA	Operating Expense to Total Assets
	AETA	Administrative Expenses to Total Assets
	PELP	Personnel Expense to Loan Portfolio
	CT	Client Turnover
Productivity	BPS	Borrowers Per Staff
	BPLO	Borrowers Per Loan Officer
	ADLS	Average disbursed loan size
	PALR	Personnel Allocation Ratio
	AOLS	Average outstanding loan size
	LPSM	Loans per Staff Member
	LPLO	Loans per Loan Officer

ANNEXURE – XX

RETURN ON ASSETS (ROAS) OF THE SAMPLE AVERAGE & INDIVIDUAL MFI AVERAGES, 2008 – 2010

Sl. No.	MFI Name	ROA Averages (2008)	ROA Averages (2009)	ROA Averages (2010)	ROA Averages
1	PRDS	0.82	1.30	2.36	1.49
2	MZGPS	2.86	4.61	2.38	3.28
3	NCS	0.26	0.97	2.11	1.11
4	PROCHESTA	1.13	8.14	2.51	3.93
5	ASOMI	0.25	0.22	0.46	0.31
6	GS	0.08	0.61	1.74	0.81
7	RGVN	2.59	10.16	0.08	4.28
8	RGVN NEM	0.31	4.76	1.15	2.07
9	CRD	10.81	0.90	0.89	4.20
10	AAMIVA	7.78	1.54	4.03	4.45
11	ASC	2.32	0.28	2.67	1.76
12	GSEDC	12.46	8.22	5.75	8.81
13	AGUP	37.18	26.56	15.83	26.52
14	PANCHARATNA	7.11	6.42	6.79	6.77
15	GM	10.35	12.95	10.68	11.33
16	WDS	2.51	1.78	3.69	2.66
17	BJS	22.11	2.65	38.66	21.14
19	GVM	0.52	11.27	11.27	7.69
20	LSS	7.50	10.19	5.11	7.60
21	AD	10.75	12.16	13.35	12.09
22	SATRA	8.37	0.33	1.80	3.50
23	SDC	-4.07	-4.33	0.25	-2.72
24	AGUS	-12.71	-25.47	10.20	-9.33
26	RENEISSANCE	20.72	3.76	10.15	11.54
29	MASK	1.28	2.37	6.57	3.41
30	DASK	3.31	3.27	8.16	4.91
31	JPYS	12.01	108.61	101.60	74.07
32	DPYS	26.10	34.86	63.72	41.56
34	ROAD	72.33	33.96	23.76	43.35
36	RMI	2.67	3.54	4.08	3.43
38	MACC	2.00	0.97	1.34	1.44
40	DC	2.00	0.02	1.34	1.12
41	SSUS	4.95	8.14	2.51	5.20
	SAMPLE AVERAGES	8.65	8.77	10.87	9.43

ANNEXURE – XXI

CLASSIFICATION OF MFIS ACCORDING TO THEIR TOTAL ASSETS*

Sl. No.	MFIs	Total Assets (Average of 2008-2010)	Total Asset Classification
1	PRDS	1844796	Medium
2	MZGPS	10889696	Big
3	NCS	28581822	Big
4	PROCHESTA	14361282	Big
5	ASOMI	154988583	Big
6	GS	33311899	Big
7	RGVN	437324392	Big
8	RGVN NEM.	458609973	Big
9	CRD	20447967	Big
10	AAMIVA	456693	Small
11	ASC	13071559	Big
12	GSEDC	4630924	Medium
13	AGUP	3807508	Medium
14	PANCHARATNA	6676559	Medium
15	GM	296265	Small
16	WDS	5010445	Medium
17	BJS	315756	Small
18	GVM	1394478	Medium
19	LSS	2152731	Medium
20	AD	170457	Small
21	SATRA	11732468	Big
22	SDC	11206110	Big
23	AGUS	2883389	Medium
24	RENEISSANCE	1840546	Medium
25	MASK	3114113	Medium
26	DASK	441033	Small
27	JPYS	1054522	Medium
28	DPYS	58410	Small
29	ROAD	1252707	Medium
30	RMI	1180999	Medium
31	MACC	11643057	Big
32	DC	11643057	Big
33	SSUS	14463300	Big
34	MANDAL	1240980	Medium

*MFIs having total asset of more than Rs.1 crore are considered to be big, medium if total asset lies between Rs.10 lakhs and 1 crore, and small if total asset is less than Rs.10 lakhs.

ANNEXURE – XXII

PROFILE OF SAMPLE MFIs AS ON 31.03.2010

Name of MFIs	Active Borrowers(2010)	Age (in Years)	Total Staffs	No. of Branches	Type of Institutions	Geographic Area
PRDS	205	5	11	0	Society	Mayong Gaon
MZGPS	4394	10	25	0	Society	Morigaon District
NCS	10611	6	27	4	Society	Guwahati
PROCHESTA	2528	9	165	0	Society	Assam
ASOMI	40449	8	160	50	NBFC	Assam
GS	6946	4	51	9	Society	Assam
RGVN	145385	20	65	1	Society	NER & Assam
RGVN MICRO	101389	15	414	75	Trust	Assam & Meghalaya
CRD	4400	6	72	9	Society	Assam
AAMIVA	132	4	6	0	Society	Assam
ASC	3390	9	21	3	Society	Goalpara District
GSEDC	267	7	9	0	Society	Barpeta District
AGUP	1800	14	7	0	Society	Barpeta District
PANCHARATNA	2785	5	12	2	Society	2 Blocks of Nalbari District
GM	430	3	5.5	0	Society	Nalbari District
WDS	613	7	14	0	Society	Nalbari District
BJS	2400	5	8	0	Society	Nalbari District &
GVM	964	8	10	0	Society	Nalbari & Kamrup Rural
LSS	283	6	4.5	1	Society	Baksa District
AD	20	5	3	0	Trust	Baksa District
SATRA	5634	5	16	3	Society	Darrang, Udalguri, Kamrup-rural, Baksa
SDC	2587	13	14	3	Society	Darrang
AGUS	1250	13	2.5	2	Society	Sivasagar District
RENEISSANCE	352	7	15	1	Society	Bokaghat District
MASK	589	4	5.5	0	Society	Balipara
DASK	67	3	4.5	0	Society	Chariduar, Lokhra, Bhalukmari GP
JPYS	240	9	9	0	Society	Chaiduar, Gamiri, Misamari
DPYS	350	12	3.5	0	Society	Lakhimpur District
ROAD	315	6	7.5	0	Society	Darrang District
RMI	308	5	4	1	Society	Karimganj District
MACC	847	3	27	1	Society	Hailakandi District
DC	847	12	13	1	Society	Hailakandi District
SUSS	2528	6	192	3	Society	Sonitpur District
MANDAL	274	3	2.5	0	Society	Tezpur

ANNEXURE – XXIII

LIST OF PUBLICATIONS

Sl. Nos.	Details of Published/Forthcoming Papers	
1	Roy, Arup (2011). Delivering Microfinance Services by MFIs: A study in the State of Assam, *The microFINANCE REVIEW*, 3(1), 53-73, (Jan-Jun 2011 Issue, ISSN No. 2229-3329)	*
2	Roy, Arup (2011). Inclusive Growth through MFIs' Outreach in Assam, *Asia-Pacific Business Review*, VII(3), 45-60. (July-September, 2011; ISSN: 0973-2470; Abstract Available at : www.asiapacific.edu/ABR-2011/arupRoy.html)	*
3	Roy, Arup (2011). Managing Performance of MFIs – A Look into their Microfinance Delivery Process & Profitability, *International Journal of Business, Strategy and Management*, 1(1), 1-15. (June 2011. Available online: http://www.veloxian.com/ECJ/IJBSM/full-paper/247-fp.pdf)	
4	Roy, Arup (2011). Microfinance Performance of Public Sector Banks in the NER of India, BIZ N' BYTES – Journal of Business & Information Management, 4, 126-140. (October – December, Issue IV, 2011; ISBN-Print- 978-93-81212-02-8 & ISSN-Online-0976-0458)	
5	Roy, Arup (2011). The Microfinance Growth Story in Assam – RRBs vs. Cooperative Banks, *SAMABAYIKA*, 3(1), 9-20. (ISSN 0975-7244).	
6	Roy, Arup (2011). Quality of Services of the MFIs of Assam, *North East Economic Review*, 1(1), 36-50. (Available at: http://neer-online.com/vol-1.1.2011/roy-a-neer-2011-1.1.pdf, Dec. 16, 2011)	
7	Roy, Arup (2011). SHG Movement and the Development of North Eastern Region of India. In A.K. Agarwal & Bhartendu Singh (Eds), *Understanding India's North East*, 102-120, DVS Punlishers: Delhi. (ISBN: 978-81-86307-42-7).	
8	Roy, Arup., Goswami, Chandana., & Sikidar, Sujit. (2011). Microfinance Institutions (MFIs) : A Study on its Dynamics in a District of Assam. In J U Ahmed, D. Bhagat and G. Singaiah (Eds), *Microfinance Revolution in India: Success and Sustainability*, 165-179, New Central Book Agency: Kolkata. (ISBN: 978-81-7381-671-0).	*

* Copies enclosed

9	Roy, Arup (2011). Microfinance and Rural Development in the North East India. *Pacific Business Review International*, 1(11), 43-56. (ISSN: 0974-438X, Available online: http://www.pbr.co.in/Brochure/0006.pdf, A Refereed Quarterly International Journal of Management, January – March, 2011)
10	Roy, Arup (2011). Making Money from the Poor Profitably at BoP: Is it Legitimate? *Rattan International Journal of Management & Technology*, 1, 23-26.
11	Roy, A. (2011). Emerging MFIs in Assam: Empirical evidence in client outreach, gross loan portfolio & profitability. In S. Sarma, D. Das, R. Jain, P. S. Sangwan (Eds), *India Emerging – Opportunities & Challenges*. (pp. 225-229). Pragub Publications: New Delhi.
12	Roy, Arup & Goswami, Chandana (forthcoming). A scientific Analysis of Literature on Performance Assessment of Microfinance Institutions (1995-2010) *International Journal of Commerce and Management* (Accepted on 17th August, 2011; ISSN: 1056-9219; The International Journal of Commerce and Management is an official journal of the International Association for Business Disciplines under Emerald Group Publishing).
13	Roy, Arup (forthcoming). Microfinance Initiatives for the development of the North-East India. In J. U. Ahamed (Eds), *Agriculture and Rural Development*. Publisher DBS Publisher, Pan Bazar Guwahati (In Press, accepted on 13th October, 2010).
14	Roy, Arup (forthcoming). Measuring Social Efficiency of MFIs Growth: A Case Study of Assam. In H. P. Mathur (Eds), *Inclusive Growth and Microfinance Access*. Macmillan Publishers India Ltd: New Delhi (In Press, accepted on 4th May, 2011)
15	Roy, Arup (forthcoming). "Microfinance Practices of the MFIs of Assam: How costly it is?" by Department of Finance, Nagaon GNDG Commerce College, Nagaon on the theme "Micro-Finance through SHG – A Mechanism for Poverty Alleviation"

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BANKERS INSTITUTE OF RURAL DEVELOPMENT
LUCKNOW, INDIA

Delivering Microfinance Services by MFIs: A Study in the State of Assam

- Arup Roy*

Microfinance is a financial service of small quantity provided by financial institutions to customers to meet their normal financial needs: life cycle, economic opportunity and emergency with the only qualification that (i) transaction value is small and (ii) customers are 'poor'.

Abstract

There are different types of microfinance institutions (MFIs) functioning in Assam and the operating mechanism of these MFIs differs from organisation to organisation. The players in the Microfinance sector can be classified under three main groups, viz., (a) the SHG-Bank linkage Model accounting for about 58% of the outstanding loan portfolio, (b) Non-Banking Finance Companies accounting for about 34% of the outstanding loan portfolio, and (c) others including trusts, societies, etc., accounting for the balance 8% of the outstanding loan portfolio. Consistent with the need to continue to better understand and find ways and means of improving the situation of microfinance industry, this study is an attempt to understand the microfinance services of the MFIs operating in Assam in terms of twelve parameters. The results of the study indicate that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. The study concludes that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop/home improvement are having lower preferences. The study shows that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. Finally, the study concludes that MFIs in Assam are not charging higher rate of interest from their borrowers as it falls within the limit of Malegam Committee recommendations.

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Key Words: Microfinance, Financial Institutions, Micro-credit
JEL Classification: G-21, G-29

Introduction and Motivation

Microfinance today has become one of the most debated and documented but still remains a much confused buzzwords in banking and developmental policymaking fields. Actually, in some form or the other, the concept of "microfinance" always existed in almost every society. But, as a more formal process, the history can be traced back to portions of the Marshall Plan at the end of second world war in the middle of the 20th century and the writings of abolitionist/legal theorist Lysander Spooner who wrote about the benefits of numerous small loans to the poor as a way to alleviate poverty (Khandelwal, 2007).

Microfinance has proven to financial institutions and banks that the services they provide to their "traditional" clients can also be offered to poor and low-income entrepreneurs and clients, in a sustainable and viable manner. Some global examples of microfinance initiatives are - FINCA and ACCION International of Latin America, Bank Rakyat of Indonesia (BRI), and Grameen Bank of Bangladesh, now acting in more than 50 countries. Christen et al. (2004) reports an astonishing 500 million persons served, mostly with savings accounts, while the Microfinance Summit in the 2006-meeting in Halifax celebrated the milestone of 100 million borrowers reached. Nevertheless, microfinance still reaches only a fraction of the world's poor (Robinson, 2001; Christen et al., 2004). Hence, there is a supply challenge in the industry (Helms, 2006; CGAP, 2004, 2006).

Microfinance is a financial service of small quantity provided by financial institutions (FI) to the poor. These financial services may include savings, credit, insurance, leasing, money transfer, equity transaction, etc., that is, any type of financial service, provided to customers to meet their normal financial needs: life cycle, economic opportunity and emergency [Dasgupta and Rao 2003] with the only qualification that (i) transaction value is small and (ii) customers are 'poor'.

Microfinance institutions (MFIs) are special financial institutions having a social nature along with for profit motive. Delivering microfinance services is not easy. The challenges are real and the risks are many. Banks such as Equity Bank of Kenya, CRDB of Tanzania and NABARD in India have proved that microfinance can be profitable if local conditions are well understood and microfinance is applied to suit local traditions, cultures and weather cycles. There has been sufficient research and information from projects and ongoing programmes to ensure that risks are kept to a minimum for MFIs and to enable organisations to deliver microfinance to clients.

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practiced by some microfinance institutions in India. In the wake of rising troubles faced by the microfinance sector, some state governments like Orissa and Andhra Pradesh adopted some steps to regulate the activities of all MFIs. There is a huge demand for microfinance in India and over the last decade there is an exponential growth of MFIs. With this exponential growth, microfinance has become one of the fastest growing industries worldwide. But, the lack of proper government interest and regulation resulted in heavy concentration of loans in one state, Andhra Pradesh; over borrowing by the poor; extortionate interest rates; and questionable recovery practices. The Reserve Bank of India (RBI), on Tuesday (3rd May, 2011) accepted the recommendations made by the Malegam Committee with some modifications and it has re-affirmed priority sector status for loans given to microfinance companies. This will have huge impact on the development of microfinance sector in India. Many big successful practitioners of the microfinance industry in India welcome this move of RBI which the microfinance industry required after waiting for more than two decades. Vijay Mahajan (Head of MFIN), Sunil Agarwal (Managing Director of SE Investments), Vikram Akula (CEO of SKS Microfinance) and many other MFI officials feel that this would bring highly positive outcomes for the development of the entire Microfinance Sector in India.

In India, mainstream banks have begun to look seriously at the microfinance market. In the past five years, Citigroup Foundation has made US $17 million in grants to 178 microfinance partners in 50 countries. Similarly, Deutsche Bank Foundation has recently launched the US $1.5 million microfinance Financial Development Fund. On a national scale, NABARD, as of 2003, had provided almost $200 million worth of capital to village microfinance groups through its SHG-bank linkage programme. ICICI Bank has been a pioneer in implementing new microfinance outreach channels, in partnering with MFIs and in providing low-cost sources of commercial funds. In the last year, ICICI has completed two portfolio securitisation deals with microfinance institutions, with a total value of almost US $10 million.

Parikh (2006) found three common and persistent technical challenges for institutions in reaching their outreach and sustainability goals regardless of size, location, lending methodology, philosophy, etc., of the MFIs - viz.,

(a) Collection of information from remote rural clients

(b) Management and information systems at the institutional level,

(c) Conducting financial transactions in remote rural areas.

According to Mohammad Yunus, founder of the Grameen Bank and one of the pioneers of microfinance, "the first principle of Grameen banking is that the clients should not go to the bank, it is the bank which should go to the people." Dr. Yunus perceived that to alleviate other potential imbalances, financial services should be provided to poor people on their terms, in a manner that was respectful of their needs, activities and livelihoods. At the Grameen Bank, this means that "12,000 staff serve 3.2 million clients in 45,000 villages spread out all over Bangladesh, every week".

There has been sufficient research and information from projects and ongoing programmes to ensure that risks are kept to a minimum for MFIs and to enable organisations to deliver microfinance to clients. This paper has sought to highlight some of the issues of microfinance service delivery by the MFIs of Assam.

2. Research Methodology

The primary objective of this study is to understand the microfinance service delivery practices by the MFIs of Assam. The microfinance service delivery mechanism is explained in terms of the following dimensions:-

(i) Assistance in loan application.
(ii) Time required for opening a deposit account.
(iii) Time required for loan disbursement.
(iv) Sanctioning authority of the loan.
(v) Size of loan amount.
(vi) Repayment period.
(vii) Guarantor's attendance.
(viii) Purpose of the loan.
(ix) Mode of loan delivery.
(x) Processing fees charged by MFIs.
(xi) Collection of processing fees.
(xii) Interest rate charged by MFIs.

To achieve the above objective, a sample survey was conducted during June - October, 2010 in various districts of Assam. Database of the Centre for Microfinance Livelihood (CML), 2010 was considered to select the samples. Final samples were selected based on the MFIs' outreach, i.e., number of clients reached by the MFIs, NGOs & NGO-MFIs in Assam. Only those MFIs which have been offering microfinance services to their beneficiaries at least for the last three years were selected. The total sample size considered for the study is 40. Finally, with six rejections, 34 samples were considered for the study.

Table 1: MFIs in Assam

Institutions	Numbers
NGO-MFIs	84
MFIs	7
NGOs	121
Total	212

Source: CML, Sector Overview, 2010.

After selecting the research tool, sample survey was conducted in the different districts of Assam. Firstly, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) was considered. The CML data base was published in February 2010 focusing the sector overview of NGOs, NGO-MFIs and MFIs of Assam.

From this data base, we have selected only those MFIs that are continuing micro-credit operations at least for the last three years. After this first level screening, the number of available MFIs came down from 212 to 79 as shown in table 2.

Table 2: MFIs in Assam doing Microcredit

Institutions	Numbers
MFI	6
NGO	8
NGO-MFI	65
Total	79

Source: Compiled by Author from CML

Thus, we have finally selected 34 MFIs (43% of the sample population) based on the MFI's outreach, i.e., number of clients served by the MFIs. This study was conducted in 2010 considering the financial year 2009-2010, as the reference period.

3. Microfinance Services of MFIs

To understand the operating dynamics of the MFIs, here an attempt is made to illustrate the microfinance delivery mechanism adopted by the different MFIs of Assam. The microfinance delivery system is explained in terms of twelve variables, viz., (i) assistance in loan application, (ii) average time required for opening a demand deposit, (iii) average time of loan disbursement, (iv) Sanctioning Authority of the loan, (v) size of loan amount, (vi) repayment period, (vii) guarantor's presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

3.1. Assistance in Loan Application

The results of the survey indicate that majority (82.4%) of the sample MFIs need to help their clients in filling up the loan application form.

Table 3: Assistance in Loan Application

	Frequency	Percent	Cumulative Percent
No	6	17.6	17.6
Yes	28	82.4	100.0
Total	34	100.0	

Therefore, it may be concluded that the MFIs of Assam are providing required assistance to their clients as most of them live in remote areas and are not aware of the of financial transactions.

3.2. Time Required for Opening a Deposit Account

Table 4: Average Time Required for Opening a RD Account

	Days	Frequency	Percent	Cumulative Percent
	1	8	23.5	88.9
	2	1	2.9	100.0
MFIs With RD		9	26.5	
MFIs without RD25		73.5		
Total No. of MFIs34		100.0		

The results of the survey indicate that the average time required by the MFIs to open a recurring deposit account is 1.11 days with standard deviation of 0.33 days. Moreover, out of 34 MFIs, only 9 MFIs offer recurring deposit account to their clients which represent 26.5% of the total sample MFIs.

The sample survey reveals that the average time required by the MFIs to open a fixed deposit account is 1.5 days with standard deviation of 0.71 days. Moreover, out of 34 MFIs, only 2 MFIs offer fixed deposit account to their client which represents only 5.9% of the total sample MFIs.

Further, it has been found that the average time required by the MFIs to open a savings deposit account is 4 days with standard deviation of 7.10 days. Moreover, out of 34 MFIs, only 7 MFIs offer savings deposit account to their clients which represent 20.6% of the total sample MFIs.

Table 5: Average Time Required for Opening a FD Account

	Days	Frequency	Percent	Valid Percent	Cumulative Percent
	1	1	2.9	50.0	50.0
	2	1	2.9	50.0	100.0
MFIs With FD		2	5.9	100.0	
MFIs without FD		32	94.1		
Total		34	100.0		

Table 6: Average Time Required Opening a Savings Deposit Account

	Days	Frequency	Percent	Valid Percent	Cumulative Percent
	1	5	14.7	71.4	71.4
	3	1	2.9	14.3	85.7
	20	1	2.9	14.3	100.0
MFIs With Savings a/c		7	20.6	100.0	
MFIs Without Savings a/c		27	79.4		
Total		34	100.0		

Thus, it is seen that MFIs are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a recurring deposit, fixed deposit or a savings account with the MFIs. As per the government regulation, MFIs are not allowed to accept deposit in any form from the public. So, it has been found that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. While discussing the issue with MFI officials during the primary survey, they opined that there is a huge demand and clients are demanding that the MFIs should not discontinue this service.

3.3. Time Required for Loan Disbursement

The time taken to disburse a loan basically depends on availability of the fund of the MFI and also the official formalities. The results of the survey indicate that the average time required by the MFIs to disburse a loan is 27.47 days with standard deviation of 42.50 days.

On further investigation, the data reveals that 47.1% of the sample MFIs provide emergency loan to their clients for medical, education or business purposes. The average time to disburse an emergency loan is 2.81 days with standard deviation of 2.48 days.

Table 7: Average Time of a Loan Disbursement

Days	Frequency	Percent	Valid Percent	Cumulative Percent
2	2	5.9	5.9	5.9
3	3	8.8	8.8	14.7
7	7	20.6	20.6	35.3
8	1	2.9	2.9	38.2
10	2	5.9	5.9	44.1
12	1	2.9	2.9	47.1
15	8	23.5	23.5	70.6
20	2	5.9	5.9	76.5
30	3	8.8	8.8	85.3
42	1	2.9	2.9	88.2
90	1	2.9	2.9	91.2
120	1	2.9	2.9	94.1
150	1	2.9	2.9	97.1
180	1	2.9	2.9	100.0
Total	34	100.0	100.0	

Table 8: Average Time of an Emergency Loan Disbursement

	Days	Frequency	Percent	Valid Percent	Cumulative Percent
	1	9	26.5	56.2	56.2
	2	1	2.9	6.2	62.5
	3	1	2.9	6.2	68.8
	5	2	5.9	12.5	81.2
	7	3	8.8	18.8	100.0
MFIs Providing Emergency Loan		16	47.1	100.0	
MFIs Not Providing Emergency Loan		18	52.9		
Total		34	100.0		

Therefore, it may be concluded that the MFIs of Assam are flexible in understanding the genuine requirements of their clients and disburse emergency loan within 2-3 days without much of official formalities.

3.4. Sanctioning Authority of the Loan

It has been observed that for 79.4% of the sample MFIs, the loan sanctioning authority is a committee. The committee names vary from MFI to MFI. The different names of these committees are - Area Co-ordinators Committee, Credit Committee, Executive Committee, Governing Body, Loan Sanctioning/Disbursement Committee, Loan Processing Unit, or Microfinance Unit.

On the other hand, for 20.6% of the sample MFIs, the loan sanctioning authority is a single person viz., Area Manager, Branch manager, Junior Operation Manager, Chief Manager, or Secretary.

Table 9: Sanctioning Authority of the Loan

	Frequency	Percent
A Single Person	7	20.6
A Committee	27	79.4
Total	34	100.0

3.5. Size of Loan Amount

Size of the loan of any financial institution represents the depth of the loan outreach. It is important to restrict the size of individual loans as larger loans can lead to over-borrowing, diversion of funds and size of repayment installments which are beyond the repayment capacity of the borrower. Currently in India, most MFIs give individual loans which are between Rs 10,000 and Rs 15,000. However, some large NBFCs also give higher loans, even in excess of Rs 50,000 for special purposes like micro-enterprises, housing and education (Malegam Committee Report, 2011). The descriptive statistics of the three categories of loan, i.e., SHG, JLG and Individual loan given by the MFIs of Assam is given below.

The data reveals that the average minimum size of individual member SHG loan amount is Rs 2403 and maximum is Rs 16,225. Generally, SHGs (Self Help Groups) comprise of 10 to 20 members in the same locality. So one SHG of 15 members may get a minimum loan of Rs 36,045 and maximum up to Rs 2,43,375. The majority (25.8%) of the sample MFIs specified the average minimum individual loan at Rs 1000 and

Table 10: Descriptive Statistics on Loan Size of SHG, JLG and Individual Loan

	SHG Loan		JLG Loan		Individual Loan	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
MFIs Providing Loans (Nos.)	31	31	25	25	21	21
MFIs Not Providing Loans (Nos.)	3	3	9	9	13	13
Mean (Rs)	2403	16225	3180	24480	2838	53333
Std. Error of Mean (Rs)	279	2102	334	3595	420	9767
Median (Rs)	2000	10000	3000	20000	3000	40000
Mode (Rs)	1000	10000	5000	10000	5000	50000
Std. Deviation (Rs)	1556	11703	1670	17979	1924	447589
Skewness (Rs)	.398	1.553	-.247	1.015	.032	1.997
Kurtosis (Rs)	-1.206	2.742	-1.637	.014	-1.833	4.783
Range (Rs)	4500	47000	4000	65000	4900	190000
Minimum (Rs)	500	3000	1000	5000	100	10000
Maximum (Rs)	5000	50000	5000	70000	5000	200000

Table 11: Minimum Size of Individual SHG Loan

	Loan Size (Rs)	Frequency	Percent	Valid Percent
	500	4	11.8	12.9
	1000	8	23.5	25.8
	1500	1	2.9	3.2
	2000	3	8.8	9.7
	2500	1	2.9	3.2
	3000	6	17.6	19.4
	4000	3	8.8	9.7
	4500	1	2.9	3.2
	5000	4	11.8	12.9
MFIs Providing		31	91.2	100.0
MFIs Not Providing		3	8.8	
Total		34	100.0	

Table 12: Maximum Size of Individual SHG Loan

	Loan Size (Rs)	Frequency	Percent	Valid Percent
	3000	1	2.9	3.2
	5000	5	14.7	16.1
	6000	1	2.9	3.2
	10000	9	26.5	29.0
	15000	2	5.9	6.5
	20000	6	17.6	19.4
	24000	1	2.9	3.2
	25000	3	8.8	9.7
	30000	1	2.9	3.2
	50000	2	5.9	6.5
MFIs Providing		31	91.2	100.0
MFIs Not Providing		3	8.8	
Total		34	100.0	

29% of the MFIs specified the average maximum individual loan at Rs 10,000.

A JLG (Joint Liability Group) is smaller in size and generally consists of 2 to 5 members of the same locality. The average minimum size of individual member JLG loan amount was found to be Rs 3180 and maximum is Rs 24,480. So one JLG having 5 members may get an average minimum loan amount of Rs 15,900 and maximum of Rs 1,22,400. The majority (32%) of the sample MFIs specified the average minimum individual JLG loan at Rs 5000 and the average maximum individual JLG loan at Rs 10,000.

Table 13: Minimum Size of Individual JLG Loan

	Loan Size (Rs)	Frequency	Percent	Valid Percent
	1000	7	20.6	28.0
	1500	1	2.9	4.0
	2500	1	2.9	4.0
	3000	4	11.8	16.0
	4000	3	8.8	12.0
	4500	1	2.9	4.0
	5000	8	23.5	32.0
MFIs Providing		25	73.5	100.0
MFIs Not Providing		9	26.5	
Total		34	100.0	

Table 14: Maximum Size of Individual JLG Loan

	Loan Size (Rs)	Frequency	Percent	Valid Percent
	5000	1	2.9	4.0
	8000	1	2.9	4.0
	10000	8	23.5	32.0
	15000	2	5.9	8.0
	20000	3	8.8	12.0
	24000	1	2.9	4.0
	25000	1	2.9	4.0
	30000	1	2.9	4.0
	40000	2	5.9	8.0
	50000	4	11.8	16.0
	70000	1	2.9	4.0
MFIs Providing		25	73.5	100.0
MFIs Not Providing		9	26.5	
Total		34	100.0	

Similarly, the average minimum size of individual loan amount is Rs 2,838 and maximum is Rs 53,333. The majority (38.1%) of the sample MFIs specified the average minimum individual loan at Rs 5000 and 23.8% of the MFIs specified the average maximum individual loan at Rs 50,000.

Table 16: Maximum Size of Individual Loan

	Loan Size (Rs)	Frequency	Percent	Valid Percent
	10000	1	2.9	4.8
	15000	1	2.9	4.8
	20000	2	5.9	9.5
	25000	3	8.8	14.3
	30000	3	8.8	14.3
	40000	1	2.9	4.8
	50000	5	14.7	23.8
	100000	4	11.8	19.0
	200000	1	2.9	4.8
MFIs Providing		21	61.8	100.0
MFIs Not Providing		13	38.2	
Total		34	100.0	

Table 15: Minimum Size of Individual Loan

	Loan Size (Rs)	Frequency	Percent	Valid Percent
	100	1	2.9	4.8
	500	1	2.9	4.8
	1000	7	20.6	33.3
	3000	4	11.8	19.0
	5000	8	23.5	38.1
MFIs Providing		21	61.8	100.0
MFIs Not Providing		13	38.2	
Total		34	100.0	

Thus, it is seen that the average size of the individual SHG loan ranges from Rs 2,403 to Rs 16,225; average size of the individual JLG loan ranges from Rs3180 to Rs 24,480; and the average size of the individual loan ranges from Rs 2838 to Rs 53,333. The recent Malegam Committee (2011) recommends that the size of an individual loan should be restricted to Rs 25,000. Further, to prevent over-borrowing, the aggregate value of all outstanding loans of an individual borrower should also be restricted to Rs 25,000. The data reveals that for 28 MFIs, the individual SHG loan is less than Rs 25,000. Similarly for 17 MFIs, the individual JLG loan is less than Rs 25,000. On the other hand, only for 7 MFIs, the individual loan is less than Rs 25,000. Therefore, it may be concluded that the majority of the average SHG and JLG loan size of the MFIs of Assam conforms to the Malegam Committee recommendation, but, the majority of the individual loan size is higher than the benchmark set by this committee.

3.6. Repayment Period

MFIs normally give loans which are repayable within 12 months irrespective of the amount of the loan (Malegam Committee, 2011). However, the larger the loan, the larger the amount of the repayment installment, and a large installment may strain the repayment capacity of the borrower and result in multiple borrowing. At the same time, if the repayment installment is too small, it would leave surplus cash with the borrower which could be diverted to other uses and not be available for repayment when repayment is due. The loan repayment period prescribed by the MFIs for their clients varies from MFI to MFI. The descriptive statistics of the loan repayment period offered by the MFIs of Assam is given below.

Table 17: Loan Repayment Period Specified by the MFIs

	Minimum Time in Months	Maximum Time in Months
Total No. of MFIs	34	34
Mean	9.71	18.65
Std. Error of Mean	0.82	1.75
Median	12.00	12.00
Mode	12.00	12.00
Standard Deviation	4.78	10.22
Skewness	-0.74	1.37
Kurtosis	-0.24	0.87
Range	17.00	38.00
Minimum	1.00	10.00
Maximum	18.00	48.00

Analysing the data, it has been observed that the minimum average loan repayment period offered by the MFIs of Assam is nearly 10 months and maximum average repayment period is approximately 19 months. Further, it is seen that the minimum loan repayment period specified by the MFIs of Assam is 1 month and maximum is up to 48 months.

The data reveals that the majority (44.1%) of the sample MFIs' minimum loan repayment period specified for their clients is 12 months. 38.2% of the sample MFIs revealed that the maximum loan repayment specified by them is 12 months. Some MFIs offer weekly repayment option to their clients also.

Table 18: Minimum Loan Repayment Time

Months	Frequency	Percent	Valid Percent
1	5	14.7	14.7
3	2	5.9	5.9
6	2	5.9	5.9
10	3	8.8	8.8
11.5	4	11.8	11.8
12	15	44.1	44.1
15	1	2.9	2.9
18	2	5.9	5.9
Total	34	100.0	100.0

Table 19: Maximum Loan Repayment Time

Months	Frequency	Percent	Valid Percent
10	2	5.9	5.9
11.5	4	11.8	11.8
12	13	38.2	38.2
15	1	2.9	2.9
16	1	2.9	2.9
18	2	5.9	5.9
20	1	2.9	2.9
24	3	8.8	8.8
25	1	2.9	2.9
36	5	14.7	14.7
48	1	2.9	2.9
Total	34	100.0	100.0

On further investigation, it was found that 11.4% of the MFIs fixed their loan repayment period at 50 weeks for the clients. Only 2.9% of the sample MFIs fixed the loan repayment period as per the clients' convenience. Surprisingly, in some MFIs it was found that if any borrower was willing to prepay the entire loan amount, the client was penalised and charged the entire loan period's interest. This violates the

Malegam Committee recommendation [para 5.9 (b) iii]. The Committee suggested that for loans not exceeding Rs 15,000, the tenure of the loan should not be less than 12 months and for other loans the tenure should not be less than 24 months. The borrower should however have the right of prepayment in all cases without attracting penalty.

Thus, it may be concluded that majority of the MFIs in Assam recover their loans in 12 months and the loan repayment period varies from 1 month to 48 months. Another important finding of this study is that penalty is charged by some MFIs of Assam for loan prepayments.

Table 20: Guarantor's Presence Required

	Frequency	Percent	Valid Percent	Cumulative Percent
No	20	58.8	58.8	58.8
Yes	14	41.2	41.2	100.0
Total	34	100.0	100.0	

3.7. Guarantor's Attendance

The data reveals that majority (58.8%) of the sample MFIs do not require the guarantor's presence at the office of the MFI prior to disbursement of the loan. On the other hand, in 41.2% of the sample MFIs, the guarantor needs to be present at the time of the loan disbursement.

3.8. Purpose of the Loan

It is often argued that loans should not be restricted to income generating activities alone, but should also be given for other purposes such as repayment of high-cost loans of moneylenders, education, medical expenses, consumption smoothing, acquisition of household assets, housing, emergencies, etc. A recent study by the Centre for Microfinance, Hyderabad indicates that Microfinance is useful in smoothening consumption and relieving seasonal liquidity crises that visit poor families and that it obviates the need for high-cost borrowing from informal sources. A balance has to be struck between the benefits of restricting loans only for income-generating purposes and recognition of the needs of low-income groups for loans for other purposes.

Malegam Committee has recommended that not more than 25% of the loans granted by MFIs should be for non-income generating purposes [para 5.6 (e)]. The results of the survey indicate that majority (94.1%) of the MFIs in Assam are giving loan to their clients for agricultural purposes. The other important purposes of the loan are opening a shop (85.3%), poultry (82.4%), handloom (76.5%), diary (73.5%), piggery (70.6%), fishery (70.6%), handicraft (58.8%), shop renovation (58.8%), education (52.9%), health (50%), petty trading (47.1%), transportation services (29.4%), nursery/plantation (17.6%), weaving (14.5%), artisans (8.8%) and others (46.4%). Here other purposes include - consumption, marriage, milk vendors, stationary/grocery, tea stall, freeing from moneylenders, tailoring, masala preparation, sugarcane cultivation, maternity, sericulture, terracotta, duckery, mastered cultivation, and pottery Items.

Table 21: Different Purposes of the Loan

	Frequency	Percent
Agriculture	32	94.1
Open a Shop	29	85.3
Poultry	28	82.4
Handloom	26	76.5
Diary	25	73.5
Piggery	24	70.6
Fishery	24	70.6
Handicraft	20	58.8
Shop Renovation	20	58.8
Education	18	52.9
Health	17	50.0
Petty Trading	16	47.1
Transportation Service	10	29.4
Nursery/Plantation	6	17.6
Weaving	5	14.5
Guttery	4	11.6
Artisans	3	8.8
Consumption Loan	1	2.9
Marriage	1	2.9
Milk Vendors	1	2.9
Stationary/Grocery	1	2.9
Tea stall	1	2.9
Freeing from Moneylenders	1	2.9
Tailors	1	2.9
Masala Preparation	1	2.9
Sugarcane	1	2.9
Maternity	1	2.9
Sericulture	1	2.9
Terracotta	1	2.9
Duckery	1	2.9
Mastered cultivation	1	2.9
Pottery Items	1	2.9

According to the study on "Access to Finance in Andhra Pradesh, 2010, CMF/IFMR, Chennai", the usage of loans given by JLGs and SHGs is as under:

Table 22: Usage of SHG & JLG Loans in India

Sl. No.	Particular	JLG%	SHG%
i)	Income Generating	25.6	25.4
ii)	Repayment of old debt	25.4	20.4
iii)	Health	10.9	18.6
iv)	Shop/Home Improvement	22.1	13
v)	Education	4.4	5.7
vi)	Others	11.6	7.9

Source: CMF/IFMR, 2010

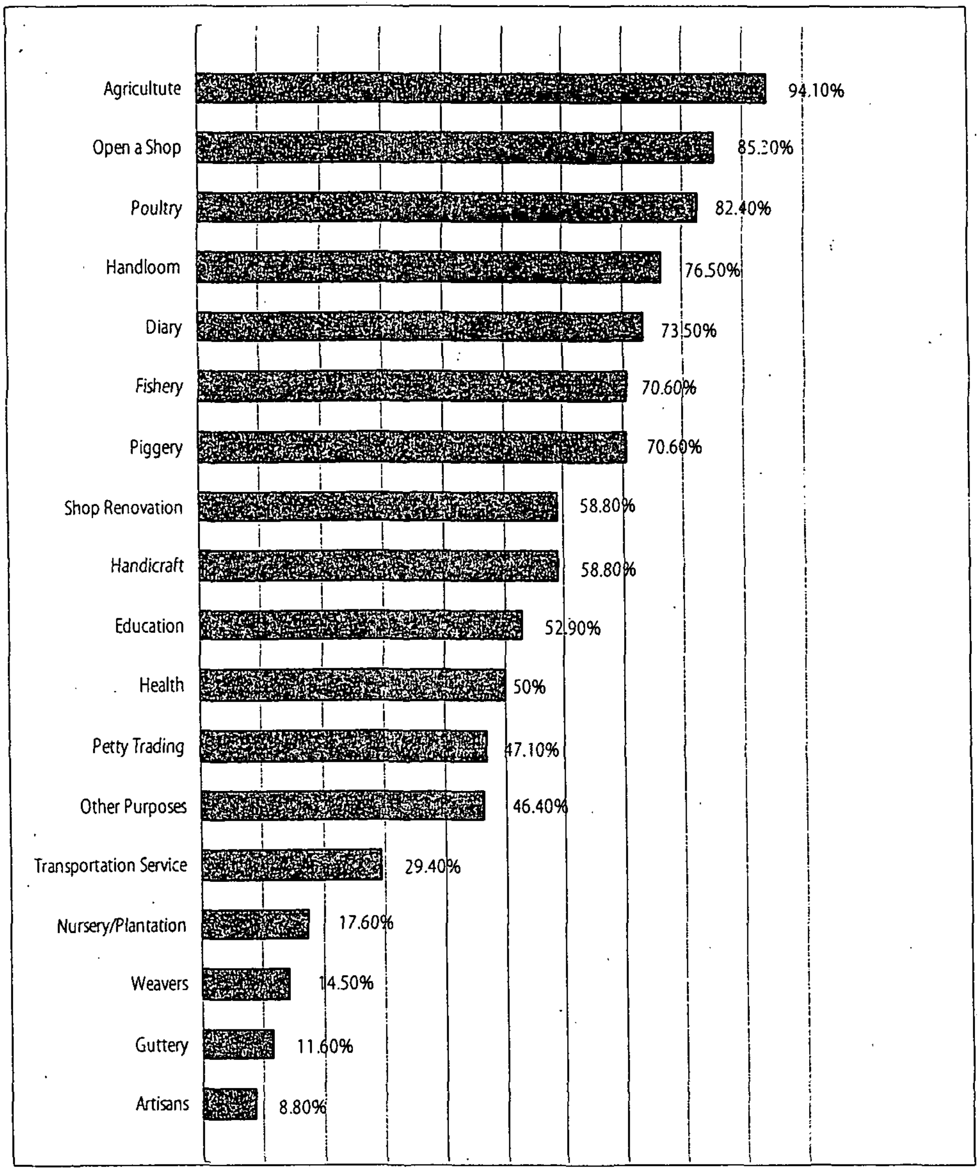
Summarising the survey results under the above six categories, it is seen that majority (82%) of the MFIs of Assam are disbursing loan for income generating purposes. The other purposes of the loan are shown in the following table.

Table 23: Usage of Loans of the Sample MFIs in Assam

Sl. No.	Particulars	Frequency SHG/ JLG/Individual	Percent
i)	Income Generating	265	82.0
ii)	Repayment of old debt	1	0.3
iii)	Health	17	5.3
iv)	Shop/Home Improvement	20	6.2
v)	Education	18	5.6
vi)	Others	2	0.6

Therefore, it may be concluded that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop / home improvement are having lower preferences.

Figure 1: Different Purposes of the Loan



3.9. Mode of Loan Delivery

The results of the survey indicate that majority (61.8%) of the MFIs deliver the loan amount to their clients at the office of the MFI. Only 8.8% of the MFIs deliver the loan amount at the clients' place through the field co-ordinators or field officers. Moreover, 29.4% of the sample MFIs provides both the options of delivering the sanctioned loan amount at the client's place or at the MFI office.

Table 24: Mode of Loan Delivery				
	Frequency	Percent	Valid Percent	Cumulative Percent
At Client's Place	3	8.8	8.8	8.8
At MFI Office	21	61.8	61.8	70.6
Both Options are available	10	29.4	29.4	100.0
Total	34	100.0	100.0	

On further investigation, it is seen that the mode of payment of the majority (50%) of the MFIs is through cheque. Only 29.4% of the samples MFIs disburse the loan by cash and 20.6% of the sample MFIs provide the loan either through cash or through cheque as per the convenience of the client. Further, it was found that for smaller loan amounts of less than Rs 3,000, the disbursement is done through cash and for higher loan amount, it is paid through cheques. The data also reveals that cash is disbursed to the JLGs and mode of payment to the SHGs is through cheque. Some MFIs issue bearer cheque and some others issue account payee cheques to their clients.

Table 25: Mode of Payment				
	Frequency	Percent	Valid Percent	Cumulative Percent
Cash	10	29.4	29.4	29.4
Cheque	17	50.0	50.0	79.4
Cash or Cheque	7	20.6	20.6	100.0
Total	34	100.0	100.0	

In some cases where MFIs are only assisting the SHGs in bank linkage, the loan amount is transferred to the SHG's group account by the bank. Few MFIs are also adopting the modern core banking facility of SBI and depositing the loan amount in the clients' SBI core banking account. Thus, it may be concluded that the majority of the MFIs of Assam are disbursing the loan amount through cheque and some MFIs are flexible as per the need of their clients' convenience and disburse the loan amount either by cash as well by giving both the option to their client.

3.10. Processing Fees Charged by the MFIs

Table 26: MFIs Charging Processing Fees				
	Frequency	Percent	Valid Percent	Cumulative Percent
No	6	17.6	17.6	17.6
Yes	28	82.4	82.4	100.0
Total	34	100.0	100.0	

The Malegam Committee suggested that MFIs should levy only two charges apart from the insurance premium. These two charges should consist of an upfront fee towards the processing of the loan which should not exceed 1% of the gross loan amount, and an interest charge. The results of the survey indicate that majority (82.4%) of the MFIs in Assam charge processing fees whereas some (17.6%) of the MFIs do not charge any processing fees from their clients. Generally, the MFIs which do not charge any processing fees are perceived to be more socially responsible than the others.

Table 27: Descriptive Statistics of Processing Fees

	Any Processing Fees in % of Loan Amount
No. of MFIs Charging Processing Fees	21
No. of MFIs Charging No Processing Fees	13
Mean	.0195
Median	.0100
Mode	.0100
Std. Deviation	.0254
Skewness	3.4540
Kurtosis	13.3050
Range	.1200
Minimum	.0000
Maximum	.120
Sum	.410

The data showed that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients with a standard deviation of 2.54%. Moreover, we find that the maximum processing fees charged is up to 12% of the total loan amount which is very high. Therefore it may be concluded that some MFIs of Assam are not charging any processing fees, but the majority of the MFIs are charging processing fees of 1.95% which is higher than the standard 1% suggested by the Malegam Committee of 2011.

On further investigation it has been observed that some MFIs take fixed charges of Rs 10, Rs 15, Rs 50 or Rs 200 per loan, whereas some other MFIs charge 1% of the loan amount for a loan of more than Rs 25,000 or 0.5% of the loan amount for a loan of Rs 50,000. For some other MFIs who are involved in the bank linkage, the maximum processing charge is Rs 500 to Rs 3,000 depending on the work volume including documentation. Thus, it may be concluded that there is no unanimity in the processing fees charged by the MFIs of Assam and in some cases it is fixed per loan, whereas in some cases it varies from zero to a maximum of 12% of the loan amount.

3.11. *Collection of Processing Fees.*

The results of the survey indicate that majority (64.7%) of the MFIs collect the processing fees before the loan disbursement. Some of the MFIs, on the other hand

Table 28: Collection of Processing Fees

	Frequency	Percent	Valid Percent	Cumulative Percent
No Fees Charged	6	17.6	17.6	17.6
Collect Before the Loan Disbursal	22	64.7	64.7	82.4
Later on with Loan repayments	6	17.6	17.6	100.0
Total	34	100.0	100.0	

collect the processing fees later, along with the loan repayments.

3.12. Interest Rate Charged by the MFIs

There have been some concerns in the recent past expressed in the media about high interest rates, coercive recovery processes and multiple lending practised by some microfinance institutions in India. On 19th July 2010, the Governor, Reserve Bank of India also confirmed certain malpractices in MFI functioning for which banks have been asked to take corrective actions. It was also mentioned that and which also states "State Government is the best agency for regulation of the interest rates." The Malegam Committee (2011) appointed by the RBI reports that for the larger MFIs, the effective interest rate charged by the MFIs in India, calculated on the mean of the outstanding loan portfolio as at 31st March 2009 and 31st March 2010, ranged between 31.02% and 50.53% with an average of 36.79%; for the smaller MFIs the average is 28.73%.

Table 29: Descriptive Statistics of the Interest Rate Charged by MFIs of Assam

	Lending Annual Interest Rate	
	Flat Interest Rate	Reducing Rate of Interest
No. of MFIs Charging	19	15
Mean	16.63	18.20
Std. Error of Mean	1.22	1.58
Median	15.00	18.00
Mode	15.00	18.00[a]
Std. Deviation	5.30	6.12
Variance	28.05	37.46
Skewness	0.22	0.10
Std. Error of Skewness	0.52	0.58
Kurtosis	-0.99	-0.31
Std. Error of Kurtosis	1.01	1.12
Range	16.00	23.00
Minimum	8.00	7.00
Maximum	24.00	30.00
Sum	316.00	273.00

a. Multiple modes exist. The smallest value is shown

The results of the survey reveal that 55.9% of the sample MFIs of Assam prefer charging flat rate of interest whereas 44.1% of the sample MFIs charge interest rate on reducing balance. The average annual flat rate of interest has been found to be 16.63% with a minimum of 8% and maximum of 24%. On the other hand, the average annual interest rate on reducing balance is found to be 18.02% with a minimum of 5% and maximum of 30%.

Malegam Committee recommends that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crore and a "margin cap" of 12% in respect of MFIs which have an outstanding

Table 30: Lending Annual Interest Rate (Flat)

	Interest Rate	Frequency	Percent	Valid Percent
	8	1	2.9	5.3
	8.5	1	2.9	5.3
	12	3	8.8	15.8
	15	6	17.6	31.6
	16	1	2.9	5.3
	17.5	1	2.9	5.3
	20	1	2.9	5.3
	24	5	14.7	26.3
MFIs With Flat		19	55.9	100.0
Total No. of MFIs		34	100.0	

loan portfolio at the beginning of the year of an amount not exceeding Rs 100 crore. There should also be a cap of 24% on individual loans (para, 7.11[1]).

On analysing the data further, it is seen that of the MFIs who charge flat rate of interest, 31.6% of the MFIs charged 15% flat rate of interest per annum from their borrowers whereas 26.3% of the MFIs charged 24% flat rate of interest per annum. Thus, it may be concluded that the flat rate of interest charged by MFIs of Assam is falls in line with the Malegam Committee recommendations.

Figure 2: Lending Annual Interest Rate-Flat

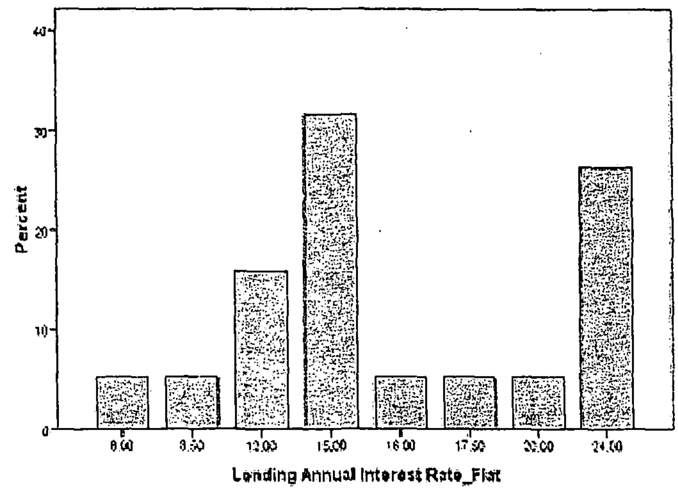
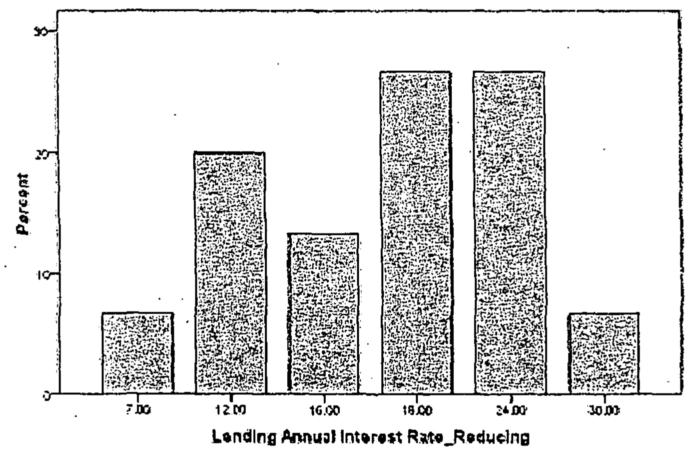


Table 31: Lending Annual Interest Rate (Reducing)

	Interest Rate	Freq-uency	Per-cent	Valid Percent
Valid	7	1	2.9	6.7
	12	3	8.8	20.0
	16	2	5.9	13.3
	18	4	11.8	26.7
	24	4	11.8	26.7
	30	1	2.9	6.7
	Total	15	44.1	100.0
Missing System		19	55.9	
Total		34	100.0	

Figure 3: Lending Annual Interest Rate-Reducing



Further, the data reveals that out of the MFIs charging rate of interest on reducing balance, majority (23.6%) of the MFIs together charge between 18% and 24% reducing rate of interest per annum from their borrowers. This is also as per norms put forward by the Malegam Committee.

There is universal agreement that the interest charges and other terms and conditions should be affordable to clients and at the same time sustainable for MFIs. MFIs need to find the right balance between the pursuit of the social objective of microfinance and the interests of their shareholders. Responsible finance has meaning only in that context. While several MFIs have published vision statements, not many have demonstrated their commitment to that vision.

3. Conclusions

The United Nations Year of Micro-Credit in 2005, the award of Nobel Peace Prize to Muhammed Yunus in 2006, and the performance of Grameen Bank till 2008 gave considerable public recognition to microfinance as a development tool and attracted global attention. Consistent with the need to continue to better understand and find ways and means of improving the situation of microfinance industry, this study is an attempt to understand the microfinance services of the MFIs operating in Assam in terms of twelve parameters, viz., (i) assistance in loan application, (ii) average time required for opening deposit accounts, (iii) average time for loan disbursement, (iv) sanctioning authority of the loan, (v) size of loan amount, (vi) repayment period, (vii) guarantor's presence, (viii) purpose of the loan, (ix) mode of loan delivery, (x) processing fees charged by MFIs, (xi) collection of processing fees, and (xii) interest rate charged by the MFIs.

The results of the study indicate that MFIs of Assam are prompt in their service delivery and require fewer formalities to be fulfilled by the clients to open a recurring deposit, fixed deposit or a savings account with the MFIs. The study also finds that some of the MFIs in Assam are violating the government regulations by collecting deposits from the public. The study also concludes that the majority of the average SHG and JLG loan size of the MFIs of Assam conform to the Malegam Committee recommendation but the majority of the individual loan size of the MFIs is higher than the benchmark set by this committee. The study also finds that the MFIs of Assam are giving loan to their clients mostly for the income generating purposes while the other purposes like repayment of old debt, health, shop / home improvement are having lower preferences. The study shows that the average processing fees charged by the MFIs of Assam is 1.95% of the total loan amount disbursed to their clients which is higher than the standard fees (1%) as suggested by the Malegam Committee of 2011. The study concludes that MFIs in Assam are not charging higher rate of interest from their borrowers as it falls within the limit of Malegam committee recommendations.

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Notes

Malegam Committee (2011) recommended that there should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crore and a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of an amount not exceeding Rs 100 crores. There should also be a cap of 24% on individual loans.

Appendix I
List of the MFIs surveyed in Assam

Sl. No.	Acronyms of MFIs	Full Name of MFIs
1	PRDS	Pragati Rural Development Society
2	MZGPS	Morigaon Zila Gramya Puthibharal Sanstha
3	NCS	Nightingle Charitable Society
4	PROCHESTA	Frochesta
5	ASOMI	Asomi
6	GS	Grameen Sahara
7	RGVN	Rastriya Gramin Vikash Nidhi
8	RGVN NE	RGVN North East Microfinance Ltd.
9	CRD	Centre for Rural Development
10	AAMIVA	Association for Advancement of Micro Institution and Voluntary Action
11	ASC	Ajagar Social Circle
12	GSEDC	Gandhinagar.Socio Economic Development
13	AGUP	Anchalik Gram Unnayan Parishad
14	Pancharatna	Pancharatna Gramya Bikash Kendra
15	GM	Gwudan Muga
16	WDS	Weavers Development Society
17	BJS	Bishnujyoti Janakalyan Samiti
18	GVM	Gramya Vikash Mancha
19	LSS	Lok Seva Samiti
20	AD	Asha Darshan
21	SATRA	Social Action for Appropriate Transformation and Advancement in Rural Areas
22	SDC	Sipajhar Diamond Club Community Centre
23	AGUS	Associated Gramya Unnayan Society
24	Reneissance	Reneissance
25	MASK	Mahila Sakti Kendra
26	DASK	Doulung Ajon Samajik Kendra
27	JPYS	Jyoti Puthibharal & Yubak Sangha
28	DPYS	Donyi Polo Youth Society
29	ROAD	ROAD
30	RMI	Rainbow Microfinance Institution
31	MACC	Monacherra Athletic & Cultural Club
32	DC	Deshbandhu Club
33	Sonali	Sonali SHG Unnayan Samiti
34	Mandal	Maandal

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Inclusive Growth through MFIs' Outreach in Assam

Arup Roy

Inclusive growth refers to ensuring that all the phases of development (designing, implementation, monitoring, evaluation) include the whole population of economy. The primary objective of this research is to illustrate and assess the role of microfinance outreach by MFIs towards bringing inclusive growth in Assam. Top 34 MFIs are selected based on their number of active clients. Primary data is collected from MFIs during June – October, 2010. The study concludes that the microfinance outreach by MFIs of Assam is growing at a faster pace of 38.51% in the last three years and also playing an important role in providing financial services to the poorer section of the society – not reached by the formal banking and other financial systems. The results of this study indicate that the aggregate outreach of the MFIs of Assam is 1.30% of the total population and 3.77% of the poor against the national outreach of 5%. Finally, the study concludes that the aggregate outreach rate of Assam is much lower than the national average, but given the policy environment growth in outreach by MFIs is satisfactory.

Keywords: Inclusive Growth, Micro-finance, MFIs, Outreach, Assam

Introduction

Inclusive growth is an important means for correcting regional imbalances and inequitable distribution (The India Development Policy Report, 2006, World Bank). Hence, reducing inequality has become a major concern of development policy, a concern that has generated interest in inclusive growth. Very recently, the report of the Eminent Persons Group that was initiated by the Asian Development Bank (ADB 2007c) made reference to the term "inclusive growth", which emphasizes ensuring that the economic opportunities created by growth are available to all—particularly the poor—to the maximum possible extent (see also Ali and Zhuang 2007). By inclusive growth, we mean that growth process which benefits all sections and all regions of the economy, though not in uniform manner. In other words, the growth of a country would be considered to be an inclusive growth if along with the increase in the GDP (Gross Domestic Product) of a country, the HDI (Human Development Index) also increases. Faster growth and human development in poor countries like India are essential to reduce global inequality and to reach the Millennium development Goals (MDGs). In the Indian context, inclusiveness in economic growth has to be accompanied by socio-political process, which simultaneously dismantles the socio-economic barriers of discrimination based on caste, gender, religion and ethnicity without which economic growth will not percolate downwards to the masses. The XI plan (2007-12) of India is aimed at achieving a new vision of growth- "Towards Faster and More Inclusive Growth". Inclusive growth or development refers to ensuring that all the phases of development (designing, implementation, monitoring, evaluation) include the whole population of economy. The unorganized sector, which provides employment to nearly 90% of the working force and contributes nearly 68% to the GDP of India, consisting of the weaker sections, lower middle class, backward classes like – SC, ST, OBC and minorities have been, by and large, excluded from the process of inclusive growth (Palharya, 2010). Microfinance can be an extremely useful tool to tap this economically excluded section of our society by encouraging them into productive activities. So, microfinance can be a crucial instrument of inclusive growth.

Over the last two decades, microfinance has evolved into a thriving global industry and also one of the fastest growing industries in the world. Microfinance is not a panacea which removes poverty in one go, nor is it a new form of money lending to exploit the poor. Microfinance helps a poor borrower who can use a tiny loan to start a sustainable business, generate more income and over a period of time, come out of poverty. This kind of outreached work could not be done by traditional banks, and hence required a new set of dedicated institutions — the MFIs. Microfinance emerged as a noble substitute for informal credit

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and an effective and powerful instrument for poverty reduction among people who are economically active but financially constrained and vulnerable in various countries (Japonica Intersectoral, 2003; Morduch & Haley, 2002). Microfinance is a business oriented way to help the poor. It covers a broad range of financial services including loans, deposits and payment services, and insurance to the poor and low-income households and their micro-enterprises. Microfinance Institutions (MFIs) are special financial institutions. They have both a social nature and a for-profit nature. For the developing countries like India it has come as a breakthrough in the philosophy and practices of poverty eradication, economic empowerment and inclusive growth.

On the other hand, the concept of inclusive growth has become popular worldwide. The new policy statement of Asian Development Bank (ADB) promotes environmentally sustainable and inclusive

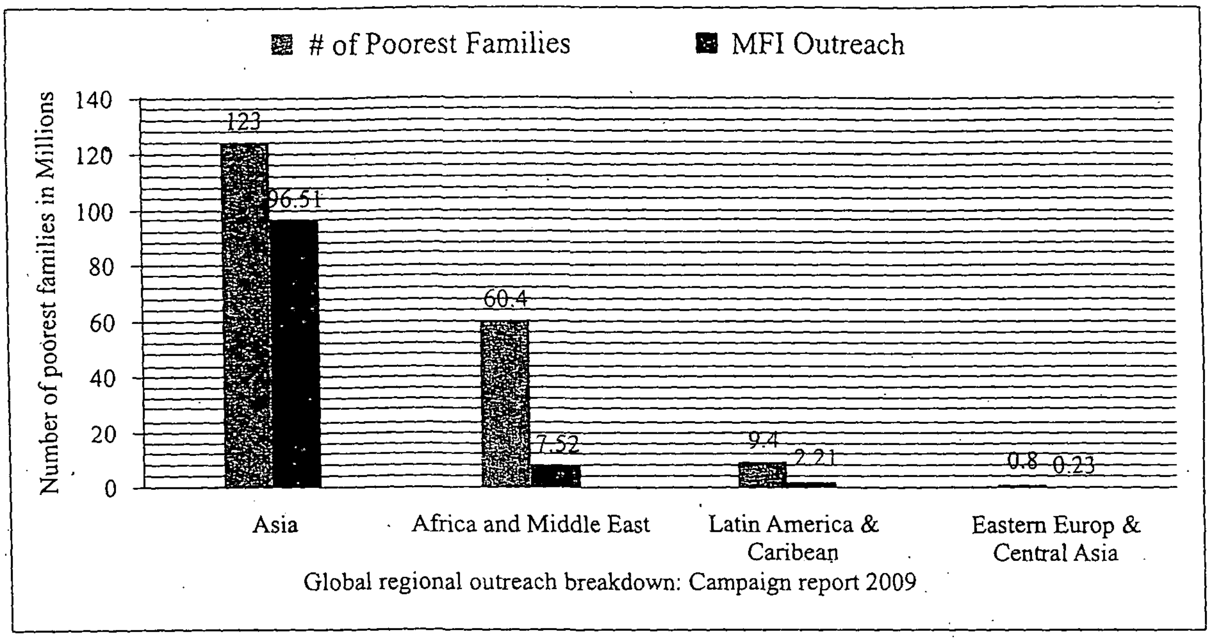


Figure 1: Global Outreach

economic growth, consolidate and build upon current ADB policies on environment, indigenous people and involuntary resettlement that are already applied to all bank-supported projects in developing member countries. Inclusive growth requires a major shift in our planning strategy and much higher allocations for development in plans. The poor deserve to participate in the opportunities that the overall growth of the country offers and microfinance is an essential step towards that. Stories about high interest rates, over-lending, defaults and coercive recoveries make sensational headlines. But independent studies by NCAER, CRISIL and others show that most MFIs are credible and committed to providing affordable financial services to India's 150 million financially-excluded households. MFIs have been growing at 100% per annum, and without any government subsidies (Mahajan, 2010).

The Government of India has emphasized inclusive growth in the XI plan considering the marginalized and poor people, who are deprived of financial facilities. Microfinance appears to be a vital tool to achieve inclusive growth, through income, employment and self employment generation. Microfinance is a step towards inclusive growth via inclusive finance, which serves the financial and non- financial needs of needy people, so as to improve the living standard of rural and urban poor people. Exclusive growth could not provide financial inclusion to rural worthy class for microfinance. The financially excluded sections largely comprise of marginal farmers, landless laborers, unorganized sector, self-employed people, senior citizens and women. Despite nationalization of commercial banks and launching a number of schemes for expanding institutional credit, India could not move much in the direction of inclusive growth through micro finance. The recent All India Debt-Investment Survey has revealed that only 13.4% of rural households have access to institutional credit. In this context microfinance really be a useful instrument for inclusive growth. The typical microfinance clients are low-income persons who do not have access to formal financial institutions. MFIs have the advantage of combining the good features of both formal and informal credit, even improving productivity and credit-worthiness through the ethics of repayment. MFIs have the capacity and responsibility of empower the most vulnerable, such as women, rural artisans etc; to allow the not-yet economically-active to become so; and to create community-based structures that build mutual support and trust. The argument in this paper is that MFIs by releasing the true potential of its members through social intermediation can ensure building an inclusive society.

In this paper, an attempt is made to assess the role of microfinance outreach of the MFIs in Assam towards inclusive growth. The paper is divided into five sections. Section 1 gives an introduction to the topic. Section 2 and 3 illustrates literature review and research methodology of the study. Section 4 attempts to measure the role of MFIs' outreach that may bring inclusive growth in Assam. Section 5 presents conclusion of the study.

Literature Review

There has been unprecedented growth in most part of the globe especially in the emerging economies during last few decades. Unfortunately, the fruit of such growth has not improved the life for all. More than half of total workforce of 2.6 billion in the developing economies is employed in the "informal sector" with unfavourable working conditions. Unemployment, especially of youths, is in the range of 40 to 70%. With close to 1 billion people suffering from malnourishment, 2.7 billion people living without proper sanitation and clean water, around 125 million children not going to school and around 30 million children dying of preventable diseases in last 10 years before reaching the age of five; do clearly indicate that a large part of the population have been deprived of the opportunities in sharing the fruits of the growth.

Financial development, broadly defined to include not just financial sector deepening but also improvements in the efficiency of the financial sector, is vital for pro-poor growth (Mavrotas 2009). It has been widely recognised that a well-functioning financial system is crucial to economic growth (McKinnon 1973, Shaw 1973). Financial development can lead to economic growth in the following five ways: (i) by facilitating the trading, hedging, diversifying, and pooling of risk, (ii) by allocating resources to the most productive uses; (iii) by monitoring managers and exerting corporate; (iv) by mobilising savings, and (v) by facilitating the exchange of goods and services (Levine 1997). Levine (1997) identifies two channels through which each financial function may affect growth: Capital accumulation and technological innovation (Barro and Sala-i-Martin 1995, Barro 1997). Therefore, the degree of financial development can have a positive effect on economic growth both by increasing the volume of investment and its efficiency (Khan & Senhadji 2000). Financial development can increase the volume of investment by the greater mobilisation of investible resources in the economy (Bandiera, Honohan, & Schianarelli 2000). A high level of inequality may not only reduce the poverty reducing impact of economic growth, it may itself contribute to reducing the impact of financial development on economic growth (Clarke 1995, Partridge 1997, Aghion, Caroli, & Garcia-Penalosa. 1999, Banerjee & Duflo 2001). Financial development only in the organised sector brings more inequality whereas developing financial products and services would facilitate inclusive growth in India. MFIs are special financial institutions dedicated to work especially for the unorganized sector.

Now-a-days, MFIs have recognised the need to be socially relevant and active in order to be financially sustainable and useful. Inclusive growth requires not only physical, natural and human capital, but also social capital. Client-specific and role-specific MFIs can do a lot in enabling people; reach the realm of inclusive growth. Such tasks should be taken up with a knowledge that social exclusion is something that cannot be solved through reservations, subsidies and grants only. A balance between physical growth, social growth and cultural growth should be maintained, always (Hans, 2009). While MFIs continue to be the core institutions offering financial services to low income populations, they have been proactive in the process of inclusive growth in India by *their innovative approaches* (Hans, 2009). The potential and real impact of microfinance on poverty reduction has been well established (Snodgrass & Sebstad, 2002). Despite several methodological and computational limitations of research studies, it has been established *prima facie* that microfinance has the potential to address poverty through enhanced business and economic opportunities, enhanced income, smoothing of consumption and preparing the poor for shocks or addressing the vulnerability in the aftermath of shocks (Weiss & Montgomery, 2004). Similarly improvements in economic and social empowerment are reported in a study of IMEC, PK (1995). Rahaman, (1996) indicates an increase in household consumption expenditure and human capital investment as a result of the microcredit. An increase in household expenditure, increased participation of girls in education and positive change in women's non-land assets as the impact of microcredit programmes is also reported by Pitt & Khandkar (1996). Khandkar (2003) also reports that microcredit not only affects the welfare of participants and non-participant but also aggregate welfare at the village level.

Source: Author

Both credit and capital markets may ration credit to small and micro enterprises or to poor households

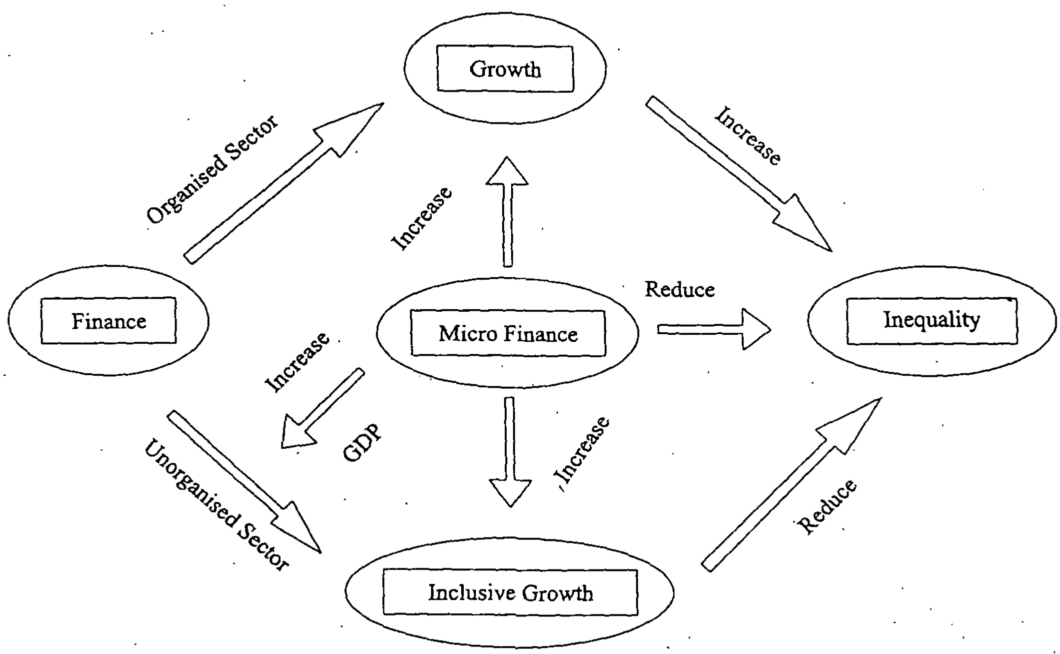


Figure 2: Inter-relationship of Inclusive Growth, Microfinance and Inequality

who may not have the history of past borrowing to obtain credit ratings necessary to borrow from capital markets, cannot meet the costs of underwriters necessary to issue shares and are seen as risky customers by commercial banks and other financial intermediaries. This implies that only a financial sector that is inclusive in its ability to bring in previously underbanked households or to lend to small and micro enterprises can be a potent positive force for achieving MDGs (UNCTAD 2001). Figure 2 illustrates inter-relationship of Inclusive Growth, Microfinance and Inequality. If finance is channalised only in the organised sector, this may facilitate growth but at the same time it may increase inequlity. If finance is channalised to the unorganised sector, this may not only increase the GDP of our country by way of financial inclusion, but also bring an inclusive growth by reducing inequality.

Let us now find out how outreach is calculated. The past literatures reveal that different researchers estimated outreach in different ways. Llanto, Garcia

& Callanta (1997) measured outreach by (i) amount of loans outstanding, (ii) amount of savings outstanding, (iii) total financial services, (iv) poor borrowers below poverty line, (v) poor savers below poverty line, (vi) individual background investigation to effectively target clientele. Conning (1999) made a comparative study of 72 MFIs of the different parts of the world. He measured outreach by average loan balance (In US$) (as a % of GNP per capita). Congo (2002) measured outreach of 6 Burkina Faso MFIs by applying ratio analysis. He found outreach performance remains very low. High costs of micro-financial services are not viable and sustainable. Their interest rates are kept low and do not allow them to cover all the costs. In addition, the results indicate that MFIs are dependent on subsidies. In this study outreach was measured by (i) clientele, (ii) percent of short-term savings, (iii) savings interest rate, (iv) percent of short-term loan, (iv) lending interest rate, (v) average loan duration (month), (vi) value of annual savings and loans.

Lapenu and Zeller (2002) examined 100 African, Asian and Latin American MFIs to measure distribution, growth, and performance. They measured outreach by (i) area targeted (rural, urban, mixed); and (ii) average size of the loans. Sustainability was measured by (i) number of staff, (ii) number of clients (members, borrowers, and savers), (iii) outstanding loans, (iv) volume of savings, (v) repayment rate, and (vi) complementary service provided. To measure performances of MFIs, Luzzi and Weber (2006) applied factor analyses to a sample of 45 MFIs of Geneva over the 1999-2003 periods. They considered five outreach indicators and one financial indicator. Outreach was measured by (i) female, (ii) group loan, (iii) poverty criteria, (iv) collateral, and (v) loan size. Kereta (2007) applied econometric analysis to look at MFIs performance of 26 Ethiopian MFIs from outreach and financial sustainability angles using data obtained from primary and secondary sources. Kereta identified that while MFIs reach the very poor, their reach to the disadvantages particularly to women is limited (38.4 Percent). From financial sustainability angle, it finds that MFIs are operational sustainable measured by return on asset and return on equity and the industry's profit performance is improving over time. Similarly, using dependency ratio and Non-performing Loan (NPLs) to loan outstanding ratio proxies the study also finds that MFIs are financial sustainable. Finally, it finds no evidence of trade-off between outreach and financial sustainability. In this study, Kereta measured outreach by women credit access share. While examining the impact of capital structure on the performance of 52 Ghana microfinance institutions, Kyereboah-Coleman (2007) measured outreach by the rate of change in clientele base on yearly basis. Makame (2008) undertook an empirical assessment of microfinance commercialization factors to probe the cognitive dissonance surrounding microfinance outreach and sustainability of 33 MFIs of four East African countries. Makame observed that the commercialization factors do not significantly explain the depth or breadth of outreach and age having a positive relationship with outreach depth. It has also been seen that efficient MFIs are the ones that have greater potential of reaching the poorest. In that study, outreach was measured by (i) Average loan presented as a proportion of the GDP, (ii) Average loan, (iii) Number of active borrowers, (iv) Dollar years of borrowed resources (average annual dollars held by clients divided by number of loans disbursed during the period).

Sebstad (1998) analysed two African, four Asian and one Latin American MFIs and measured outreach in terms of (i) number of borrowers reached by program, (ii) number of borrowers currently active, (iii) average outstanding loan size, (iv) percent women borrowers, (v) number of savings accounts, (vi) average amount of savings. Zeller, Lapenu and Greeley (2005) report a more comprehensive definition of outreach estimating 15 variables under 5 sub-dimensions. Thus it has been seen that there are various opinions regarding the measurement of outreach. In this study, the definition of outreach as given by Zeller, Lapenu and Greeley (2005) is considered.

Research Methodology

The primary objective of this research was to illustrate and assess the role of microfinance outreach by MFIs towards bringing inclusive growth in Assam. To assess the role of microfinance outreach by MFIs, a sample survey was conducted during June – October, 2010 in the various districts of Assam. MFIs' outreach was measured by five parameters viz., (i) Mission of the MFI, (ii) Geographic & Socio-economic focus on Client Group, (iii) Tools for Targeting, (iv) Size of Transaction and (v) Collateral. A questionnaire was prepared and primary data was collected from 34 top MFIs of Assam in term of number of clients served.

Database of the Centre for Microfinance Livelihood (CML), 2010 has been considered to select the samples. Final samples were selected based on the MFIs' outreach i.e., number of clients reached by the MFIs, NGOs & NGO-MFIs in Assam. Only those MFIs were selected that have been offering micro finance services to their beneficiaries for the last three years. The total sample size considered for the study is 40. Finally with six rejections, 34 samples were considered for the study.

After selecting the research tool, sample survey was conducted in the different districts of Assam. Firstly, to select the representative number of MFIs for the study, the data base of Centre for Microfinance Livelihood (CML) has been considered. The CML data base has been published in February 2010 focusing the sector overview of NGOs, NGO-MFIs and MFIs of Assam.

Table 1: MFIs in Assam

Institutions	Numbers
NGO-MFIs	84
MFIs	7
NGOs	121
TOTAL	212

Source: CML, Sector Overview,2010

From this data base, only those MFIs that are continuing microcredit operations for the last three years were selected. After this first level screening, the number of available MFIs came down from 212 to 79 as shown below.

Finally, 34 MFIs (43% of the sample population) were selected based on the MFI's outreach i.e., number of clients served by the MFIs. This study was conducted in 2010 considering the financial year 2009-2010.

Outreach determines social performance of MFIs. The social performance of an MFI comprises the relations of the organization with its clients and with other stakeholder groups. Social performance is not equal to social impact, i.e. the change in welfare and quality of life among clients and non-clients due to the activities of an organization. However, the social performance exceeds the focus on the poor persons to analyse the way the MFIs develop its social mission, integration of the excluded ones, improvement of the conditions of life of the clients, integration of the institution in the community, etc. The *Consultive Group to Assist the Poor (CGAP)*, rates the social performance of MFIs, from the main 5 dimensions of the Millennium Development Goals viz., (i) proportion of clients below the line of the poverty, (ii) improvement of the savings of the clients, (iii) improvement of the presence in the school of the children and reduction of the Illiteracy, (iv) improvement on the access to the services of health, and (v) progress in terms of women empowerment.

In this paper, outreach is measured based on five basic parameters comprising of 15 variables as suggested by Zeller, Lapenu and Greeley in 2005. The following table describes in detail the 5 parameters that measure MFIs' outreach with 15 variables:

Table 2: MFIs in Assam doing Microcredit

Institutions	Numbers
MFI	6
NGO	8
NGO-MFI	65
TOTAL	79

Source: Compiled by Author from CML

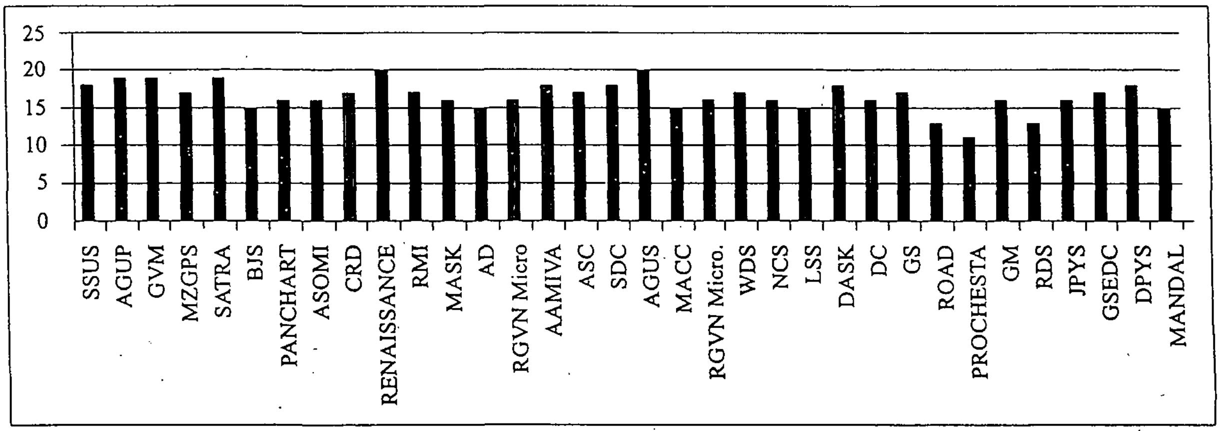
Table 3: Variables for Measuring Outreach of MFIs

Indicators	Variables
Mission of the MFI	V_1: Financial sustainability, V_2: Outreach to the poor, V_3: Outreach to the excluded (women, illiterate, unsecured workers), V_4: Positive impact on income, V_5: Positive impact on Education & Social status V_6: Strategic management to keep the social mission
Geographic & Socio-economic Focus on Client Group	V_7: Urban areas V_8: Rural areas V_9: Workers with insecure status (casual labours, landless tenants) V_{10}: Women V_{11}: Illiterate individuals
Tools for Targeting	V_{12}: Objective client conditions (illiteracy, firm size, land, assets, gender)
Size of Transaction	V_{13}: Last 12 months loan distribution (no of loans below % of GDP/Cap)
	V_{14}: Minimum size of savings account in last 12 months
Collateral	V_{15}: Loans only secured by social collateral (group solidarity, on trusted third party recommendation, physical guarantees)

Measuring MFIs' Outreach in Assam

MFIs face the challenge of sustainability and outreach (Robinson, 2001). Sustainability of MFIs depends on financial performance whereas social performance depends on the outreach. In this section, an attempt is made to measure the outreach to the poor and excluded. Such an assessment contributes first to the empirical foundations of the microfinance movement and second to the development of appropriate management benchmarks and recommendations. The main focus of "social performance" is clearly on reaching the poor but not necessarily the poorest. The depth of outreach of the MFI can be measured to evaluate its focus on the economically and socially excluded population. Here outreach to the poor and excluded is measured in terms of five sub-dimensions viz., (i) mission of the MFI, (ii) geographic & socio-economic focus on client group, (iii) tools for targeting, (iv) size of transaction, and (v) collateral. A questionnaire was prepared incorporating these 15 variables mentioned in Table 3 and against each variables three scores viz., 0, 1, 2 are assigned. Total score so computed for 15 variables is 25.

Fig. 3: MFIs' Outreach to the Poor and Excluded in Assam



Analysing the data at an individual MFI level, it is found that RENAISSANCE has attained the maximum outreach score of 20 (80%) out of 25, while PROCHESTA obtained a minimum score of 11. The possible reason of this high and low outreach performance may be attributed to the inclusion and exclusion of the following factors in the MFIs' mission and objectives:

A. Financial sustainability

B. Outreach to the poor

C. Positive impact on income of clients

D. Exclusion of women, illiterate individuals, unsecured workers

E. Positive impact on education and social status of clients and their family members

F. Strategic planning of the social mission

G. Inclusion of urban area

H. Inclusion of rural area

I. Workers with insecure status

J. Percentage of women

Mission of the MFI

This is the first sub-dimension which is used to measure the social performance of the MFIs by assessing the outreach in terms of (i) financial sustainability, (ii) outreach to the poor and excluded, (iii) positive impact on income of clients, (iv) exclusion of women, illiterate individuals, unsecured workers, (v) positive impact on education and social status of clients and their family members, and (vi) strategic planning of the social mission. The following table highlights the performance of the MFIs on the above parameters.

Table 4: Mission of the MFIs in Assam

Mission of the MFI	Important Objective		Minor Objective	
	Frequency	Percent	Frequency	Percent
Financial sustainability	22	64.7	12	35.3
Outreach to the poor	28	82.4	6	17.6
Positive impact on income of clients	28	82.4	6	17.6

Inclusion of women, illiterate individuals, unsecured workers	26	76.5	8	23.5
Positive impact on education and social status of clients and their family members	11	32.4	23	67.6

Thus the data reveals that according to 64.7% of the sample MFIs, financial sustainability is an important objective of their organization. Similarly, to 82.4% of the sample MFIs, outreach to the poor and excluded as well as positive impact on income of clients is considered to be an important MFI objective. Also 76.45% of the sample MFIs consider positive impact on education and social status of clients and their family members to be an important MFI objective. Moreover, it has been found that 88% of the sample MFIs' management keeps to the social mission by stating it clearly in the internal rules and regulations. Thus it may be concluded that except the objective of positive impact on education and social status of clients and their family members, majority of the MFIs in Assam considers the objective of attaining – financial sustainability, outreach to the poor, positive impact on income of clients and inclusion of women, illiterate individuals, unsecured workers are considered to be an important objective for the MFIs. This clearly indicates the inclusion of social objective in the mission of the MFIs.

Geographic and Socio-economic Focus on Client Group

This is the second sub-dimension which is used to measure the social performance of the MFIs by assessing the outreach of the MFIs. Here outreach is measured by geographic and socio-economic focus on MFIs' client groups in terms of (i) inclusion of urban area, (ii) inclusion of rural area, (iii) inclusion of workers with insecure status, (iv) loan to women, and (v) loan to illiterate individuals. Thus it is found that majority (47.1%) of the MFIs do not provide loans to urban area. All the sample MFIs (100%) in Assam are providing loan to rural areas. 41.2% of the sample MFIs provide loan to workers with insecure status like casual labours, landless tenants etc. which accounts for more than 30% of their loan portfolio. An important finding of this study is that 88.2% of the sample MFIs provide loan to women which accounts for more than 30% of their loan portfolio. Again majority (64.7%) of the sample MFIs provide loans to illiterate individuals which accounts for less than 30% of the MFI's loan portfolio.

Table 5: Geographic and Socio-economic Focus on Client Group

	MFI provides loans to Urban Area		MFI provides loans to Rural Area		MFI provides loans to Casual labors, Landless tenants		MFI provides loans to Women		MFI provides loans to Illiterate individual	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Never	16	47.1	0	11.8	6	17.6	0	0	6	17.6
Less than 30% of the Loan	12	35.3	4	88.2	14	41.2	4	11.8	22	64.8
More than 30% of the Loan	6	17.6	30	100.0	14	41.2	30	88.2	6	17.6
Total	34	100.0	34	100.0	34	100.0	34	100.0	34	100.0

Moreover, it has been found that all (100%) of the sample MFIs provide loans to rural areas and the average percentage of the MFI's loan portfolio particularly to the rural areas is 83%. Whereas all (100%) of the sample MFIs provide loans to women and the average percentage of the MFI's loan portfolio particularly disbursed to women is 69%. Similarly it has been observed that 82% of the sample MFIs provide loans to workers with insecure status and illiterate individuals and average percentage of the MFI's loan portfolio particularly disbursed to these them are 32% and 20% respectively. Lastly, the study finds the inclusion of urban outreach as 53% of the sample MFIs provides loans to the urban areas and average percentage of the MFI's loan portfolio particularly disbursed to the urban area is 24%. Thus it may be concluded that the MFIs of Assam are socially responsible as these MFIs have well diversified loan portfolio in terms of different geographic and socio-economic focus on client groups.

Table 6: Average Percentage of Loan Portfolio of MFIs

	No. of MFIs	Percent	Average % of Loan Portfolio
Inclusion of urban area	18	53	24%
Inclusion of rural area	34	100	83%
Workers with insecure status	28	82	32%
Loan to Women	34	100	69%
Loan to Illiterate individuals	28	82	20%

Tools for Targeting

The sample also reveals that majority (82%) of the MFIs use different targeting devices for improving the depth of poverty outreach. The following table highlights the tools targeting device used by the MFIs for improving depth of poverty outreach. It has been found that majority of the sample MFIs uses 'participatory wealth ranking' as a targeting devices for improving the depth of poverty outreach. 11% of the sample MFIs targets its loan clients based on economic activity as well as on illiteracy. Again, 7% of the sample MFIs targets its loan clients based on below poverty line, small farming, small business, housing index and firm size. Only 4 % of the MFIs targets casual labours, those have annual household income of less than Rs.50,000 per month, local residents, those who are deprived from banking services, tribal belts, common activity & women. Thus we may conclude that the MFIs in Assam are targeting clients totally different from that of the traditional banks and other formal financial institutions and adopting different tools of targeting device for improving the depth of poverty outreach.

Table 7: Tools of targeting Device by MFIs of Assam

Tools of targeting Device for improving depth of poverty outreach	No. of MFIs	In %
Below poverty Line	2	7
Casual laborers	1	4
Economic Activity	3	11
Farmers, Small Business	2	7
Household income must be less than 50,000	1	4

Housing Index; firm size	2	7
Illiteracy	3	11
Local resident	1	4
Participatory wealth ranking	9	32
Those who do not get loan from the bank	1	4
Tribal Belt, 100% unreached; No savings habit	1	4
Unemployment & Common Activity	1	4
Only Women	1	4

Size of Loan Transactions

The sample data reveals that majority (70%) of the total number of loans disbursed in the financial year 2009-2010 are below 50% of GDP per capita (Rs.18745). 20% of the total number of loans disbursed by the MFIs of Assam in the financial year 2009-2010 is between 50 – 100% of GDP per capita (Rs.18745 to Rs.37490). Only 12% of the total number of loans disbursed in the financial year 2009-2010 is above 100% of the GDP per capita (Rs.37490). Lower the size or amount of the loan transactions, greater is the outreach (Mark Schreiner, 2002; Ted Baumann, 2004), Thus analysing the results, it may be concluded that the MFIs of Assam are having greater and deeper outreach as majority of the loans are less than 50% of the GDP per capita of Rs. 18,745.

Table 8: Size of MFIs' Loan Transaction

	Below 50% of GDP/Cap		Between 50-100% of GDP/Cap		Above 100% of GDP/Cap	
	No. of Loans	in % of the total No. of loans	No. of Loans	in % of the total No. of loans	No. of Loans	in % of the total No. of loans
Distribution of Number of the amount of the Loan in 2010	3745	70%	1902	20%	1130	10%

Size of Savings Transactions

The data reveal that only 35% of the sample MFIs of Assam is maintaining savings transactions with their clients. The average number of the savings accounts per MFI in Assam is found to be 2340 in the last financial year 2009-2010. Out of the 34 MFIs selected for the study, 32 MFIs are registered under Societies Act 1860 and not allowed to collect deposits from their clients. Thus it has been observed that some MFIs of Assam are collecting demand deposits from their clients' in spite of government restriction.

Table 9: Average Number of Savings Account of MFIs

	No. of MFIs	Avg. No of Accounts
Distribution of amount of Savings Account in 2010	12 (35%)	2340

On further investigation it has been found that majority (83%) of the total number of demand deposits in the financial year 2009-2010 are below 50% of GDP per capita (Rs.18745). 13% of the total number of demand deposits collected by the MFIs of Assam in the financial year 2009-2010 is between 50 – 100% of GDP per capita (Rs.18745 to Rs.37490). Only 5% of the total number of demand deposits in the financial year 2009-2010 is above 100% of the GDP per capita (Rs.37490). Lower the deposit account balance per client, greater is the outreach (Jennefer Sebstad, 1998; Matthew Gehrke & Renso Martínez, 2007). Thus analysing the results, it may be concluded that the MFIs of Assam are having greater and deeper outreach as majority of the demand deposits are less than 50% of the GDP per capita of Rs. 18,745.

Table 10: Size of MFIs' Demand Deposits

	Below 50% of GDP/Cap		Between 50-100% of GDP/Cap		Above 100% of GDP/Cap	
	No. of Loans	in % of the total No. of loans	No. of Loans	in % of the total No. of loans	No. of Loans	in % of the total No. of loans
Distribution of amount of Savings Account in 2010	1874	83%	348	12%	161	5%

We also find that the minimum size of savings account per annum is Rs. 3262 which is 8% of the GDP per capita in 2010.

Collateral

The data reveals that 70.5% of the sample MFIs in Assam does not require any collateral whereas 29.5% of the MFIs need some sort of collateral from their clients before disbursing any loan.

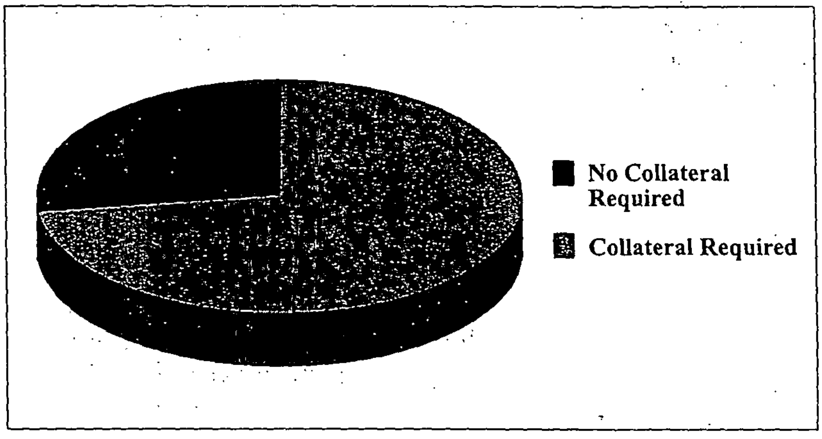


Fig. 4: Requirement of Collateral by MFIs

Among the samples, 86% of the MFIs agree to provide loans only secured by social collateral i.e., solidarity among groups, recommendation by trusted third party. On further investigation, we find that majority (97.1%) of the sample MFIs provide more than 30% of their loan portfolio only secured by social collateral. Only 2.9% of the sample MFIs does not provide loans only secured by social collateral. Thus we may conclude that majority of the MFIs in Assam agree to provide loans only secured by social collateral.

	Frequency	Percent	Valid Percent	Cumulative Percent
Never	1	2.9	2.9	2.9
For more than 30% of the loans	33	97.1	97.1	100.0
Total	34	100.0	100.0	

Microfinance Outreach by MFIs – Assam

Finally, the study finds out total outreach by the MFIs of Assam as given in the table below. It has been observed that there are 3,45,579 number of active borrowers server by the top 34 MFIs in Assam in the financial year 2009-2010. Moreover, there is a tremendous increase in the year to year outreach growth rate of 32.43% in 2008-2009 and 44.59% in 2009-2010. The number of active borrowers per MFI is found to be 7,029 in 2008-2009 and 10,164 in 2009-2010. The average number of active borrowers of the top 34 MFIs is found to be 2,55,016 for the last three financial year. Aggregate outreach growth in two years is 38.51%.

Table 12: MFIs' Outreach Growth Rate of Assam

Financial Years	2007-2008	2008-2009	2009-2010
Number of Active Borrowers	180470	239000	345579
Growth Rate of Outreach (%)	--	32.43	44.59
Active Borrowers per MFI	--	7029	10164

Looking at these statistics, it may be concluded that the microfinance outreach by MFIs in Assam is growing at a faster pace in the last three years and also playing an important role in providing financial services to the poorer section of the society – not reached by the formal banking and other financial systems. To sum up, let us now look at the aggregate microfinance outreach towards the total population of Assam and also the microfinance outreach towards poor.

Table 13: MFIs' Aggregate Outreach of BPL

Population of Assam	26655528
BPL Population (34.4%)	9169502
Clients served by MFIs	345579
Aggregate Outreach in Assam (%)	1.30
Aggregate Outreach of BPL in Assam (%)	3.77

Thus the study finds that the aggregate outreach of the MFIs of Assam is 1.30% of the total population and 3.77% of the poor against the national outreach of 5%. Therefore it may be concluded that the aggregate outreach rate of Assam is much lower than the national average, but given the policy environment growth in outreach by MFIs is satisfactory.

Conclusion

For inclusive growth which has become the mantra these days, India needs not just globalisation as traditionally understood but actually globalization which ensures that economic growth is more broad-based, equitable and sustainable than it has been so far. MFIs are informal institutions of representation and participation. Although informal system still remains dominant, microfinance sector has expanded remarkably in Assam over the second half of the last decade. In this study, 15 variables are used to measure the outreach of the top 34 MFIs of Assam under 5 basic outreach parameters viz., (i) mission of the MFI, (ii) geographic & socio-economic focus on client group, (iii) tools for targeting, (iv) size of transaction, and (v) collateral. Top 34 MFIs are selected based on their number of active clients. Primary data is collected from MFIs during June – October, 2010. The results of this study indicate that presently the top 34 MFIs provide services to 3,45,579 rural poor mostly women across 14 districts of Assam as on 31st March, 2010. On an average, 69% of the total loan portfolio of the MFIs of Assam is disbursed only to women. The incremental growth rate of active number of borrowers has also increased over the last three years due to huge demand microcredit among the poorer section of the society in Assam. Available data does not disaggregate to see the outreach of MFIs towards inclusiveness in terms of social, ethnic, and economic perspective. The results of this study reveal that the microfinance outreach by MFIs in Assam is growing at a faster pace of 38.51% in the last three years and also playing an important role in providing financial services to the poorer section of the society – not reached by the formal banking and other financial systems. The results of this study indicate that the aggregate outreach of the MFIs of Assam is 1.30% of the total population and 3.77% of the poor against the national outreach of 5%. Therefore the study concludes that the aggregate outreach rate of Assam is much lower than the national average, but given the policy environment growth in outreach by MFIs is satisfactory.

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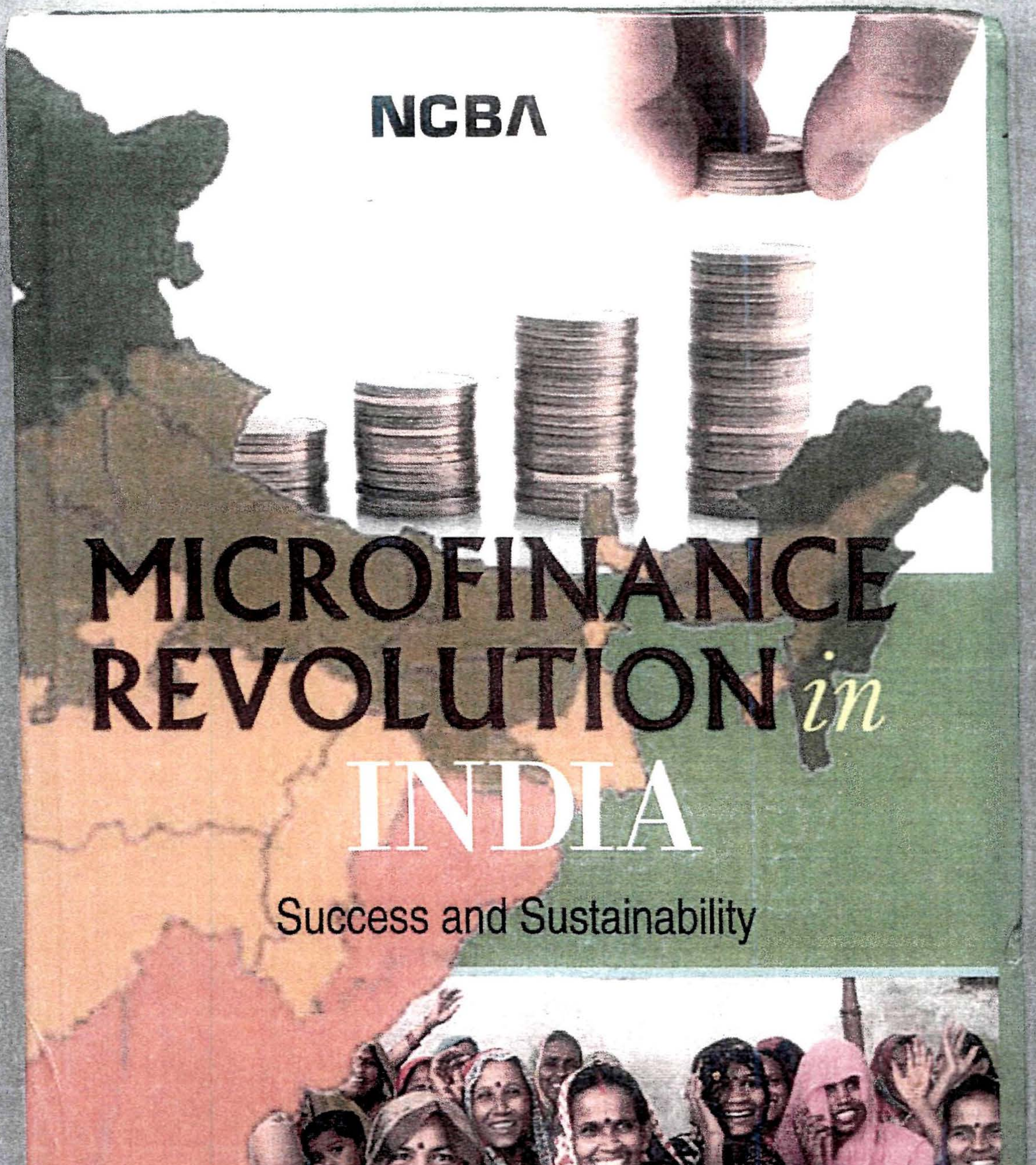
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16

Microfinance Institutions (MFIs): A Study on its Dynamics in a District of Assam

Arup Roy, Chandana Goswami and Sujit Sikidar

ABSTRACT: *Microfinance has raised the standard of living of the poor and brought significant increased productivity among the rural poor. The MFIs have reached out to over 33 million clients whereas the potential is around 100 million. Looking at the number of poor yet to be served by microfinance, the growth potential is huge. The process of growth of MFIs must capture the hope and aspirations of the poor. Microfinance sector can manage its business but addressing poverty is a major challenge. With the changes of microfinance phenomenon, regulation, performance management and inbuilt accountability has become critical because MFIs operate in diverge forms in different places with entirely different operational mechanisms. It should be reflected in terms of transparency, governance, operational norms, disclosure norms and social audits. In this paper we try to understand the micro-credit delivery system of the Microfinancial Institutions (MFIs) in a District of Assam which will help to understand the operational mechanism and tries to find out the micro-credit assessment and micro-credit monitoring system that is practiced in Assam.*

Introduction

Microfinance—since the works of McKinnon (1973) and Shaw (1973)—gained importance, especially as a tool for socio-economic development. Microfinance has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries. It has been practiced in varying forms in different countries and has come to be regarded as an important tool for poverty alleviation. The process of growth of Microfinancial Institutions (MFIs) must capture the hope and aspirations of the poor. Microfinance sector can manage its business but addressing poverty is a major challenge. The microfinance revolution, particularly the success stories of institutions like Grameen Bank in Bangladesh, Banco Sol in Bolivia, and Bank Rakyat in Indonesia, attracted several economists to study microfinance in the latter half of the 1990s. Some studies argue that microfinance has very beneficial economic and social impacts (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997).

Among Asian countries, the root of microfinance originates in ancient India as indigenous finance in the form of moneylenders, Chit Funds and Rotating Savings and Credit Associations (ROSCA). Money-lending became an organized and subsequently regulated profession in India around 1,700-2,200 years ago. In 1975, the government introduced a new network of government-owned Regional Rural Banks (RRBs), regulated and supervised banking institutions with a low capital base of around $250,000, each covering with its branches a designated service area of 1-3 districts. In 1982, NABARD started its operation for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts, and other rural crafts and other allied economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas. NABARD has changed the philosophy of rural finance from credit-driven to savings-oriented. A need for more innovative financial instrument was felt which could incorporate some amount of flexibility for the poor. In 1991, NABARD entered into a policy dialogue with RBI to make preparations for a pilot project linking informal groups (SHGs) to banks. In comparison to the Grameen Bank model, NABARD found that "the SHG linkage model appears more sustainable and appropriate in the Indian conditions where (India has) in place a vast network of rural bank branches... (and) SHGs which are functioning on their own and waiting to be linked to the banking system" (Nanda, 1995).

The past two years have seen a series of critical developments in the Indian MFI sector. These are both positive and negative. On the positive side, MFIs have started to leverage their new fund management expertise to achieve scale and to spread their operations well beyond their traditional operational areas. Thus, rating data from a large sample of the leading MFIs shows that these have recorded high growth rates of the order of 80% per annum in terms of numbers of borrowers and around 40% per annum in terms of portfolio reaching from 300,000 to one million clients each. Also positive is that a significant part of that expansion has been either to less developed areas of the country— Orissa, Jharkhand, Rajasthan, Madhya Pradesh, Tripura, Assam—or to areas such as Maharashtra that also have substantial numbers of low income families in some regions even if their overall development indicators are not as low as those for the other states (Sector Report on Microfinance in India, 2007).

On the negative side, MFIs have been under attack from politicians and bureaucrats in some of their traditional operational areas in Andhra Pradesh and Karnataka (with questions even being asked in Orissa). Their loan recovery practices have been questioned and their interest rates described as exorbitant. The related publicity has vitiated the credit culture in the traditional microfinance states forcing a lowering of interest rates and increasing the necessary level of loan loss reserves and provisioning. Operationally, the increase in costs has been compounded by the spread of the operations of individual MFIs simultaneously (and inorganically) to a number of non-traditional states. This has put pressure on operating efficiency and resulted in slowing the trend to lowering unit costs.

Microfinance is one of the many intervention strategies for socio-economic development, poverty alleviation, income generation, employment promotion and entrepreneurial development among the poor. MFIs not only provide risk capital and financial services to the rural poor but also act as a launching pad for social development livelihood intervention. The poor require a range of financial services, such as opportunities to safeguard earned income and credit to enable them to maintain minimum levels of consumption throughout the year. The rural economy is entirely different from urban economics and the majority of poor people live and work by numerous small transactions. The magnitude of the financial transactions is quite small but the frequency is high. These small transactions are essential components of rural livelihood. MFIs are such type of organizations which offer financial solutions to the very small needs of the poor.

Microfinance, over the years, has raised the standard of living of the poor and brought significant increased productivity among the rural poor. The MFIs have reached out to over 33 million clients whereas the potential is around 100 million. Looking at the number of poor yet to be served by microfinance, the growth potential is huge. The major strength of an MFI is its ability to unite growth and help poor people to move out of their poverty. Poor people are defined in monetary terms by the World Bank according to two poverty thresholds: 1$ or 2$ a day *per capita* (CGAP, 2003). According to the 1997 World Micro-credit Summit, the poorest are those who belong to the lower half of the group of people who live beneath the 1$ a day *per capita* poverty threshold. The best manner to help the poor accessing financial services causes debates between *welfarists* and *institutionalists*. Although they share the objective of poverty alleviation, the former emphasizes impact on the borrower as the core mission of MFIs whereas the latter aims at integrating microfinance in the financial markets (Cornée, 2007). This "microfinance schism" (Morduch, 1998) stands as a trade-off between targeting the poor and ensuring the profitability of MFIs. There are many options that have the potential to reduce poverty and increase economic growth and profit making capacities. Microfinance is one of the options which can reduce poverty and increase economic growth in a sustainable manner in a people-centered approach.

Need for the Study

Microfinance industry is an emerging industry and growing at a fast rate, spreading its benefits mostly to the poor people. With the changes of microfinance phenomenon, regulation, performance management and inbuilt accountability has become critical because MFIs operate in diverge forms in different places with entirely different operational mechanism. It should be reflected in terms of transparency, governance, operational norms, disclosure norms and social Audits. In India, NABARD has been involved since 1990s for the development of microfinance industry. India as a whole is performing well in this industry. The average outreach rate in India is 5%. But for the state of Assam, it is less than 2%. Thus we see there is lot of potential for the growth of microfinance industry in Assam. In case of Assam, it is only in 1997-98 that microfinance movement had really begun and has been rapidly picking up since then. Over the years, the growth in the number of members of the SHG linked banks and the amount of credit disbursement of MFIs has been quite impressive. Nobel Laureate Professor Muhammed Yunus has agreed to extend his help to Government of Assam for introducing a microcredit scheme for upliftment of the standard of living of the people of the rural areas of the State. In this context, the present study tries to understand the micro-credit delivery system of the Micro Financial Institutions (MFIs) in Sonitpur District of the State of Assam. The study also helps to understand the operational mechanism and tries to find out the micro-credit assessment and micro-credit monitoring system that is practiced in Assam.

Research Methodology

The entire study is conducted in Sonitpur district of Assam. The district that has been selected to launch the study is Sonitpur District. Sonitpur District is considered because, according to a study by the RBI in 2008, this district has the largest population outside the ambit of the formal banking system in Assam. Recently, Government of Assam has drafted a micro-credit project to be implemented in Sonitpur District in a period of three years in two phases with an amount of Rs 835 lakh. So it is important to understand the mechanism and performance of MFIs in this place as very few studies have been conducted in this area. The objective of the present study is to find out the latest microfinance practices in Sonitpur District in Assam. The study tries to evaluate the micro-credit delivery systems of the various MFIs in reaching the dual objectives of outreach and profitability in the state of Assam. The present study is conducted during the period January 2009 and June 2009, using qualitative research tools – principally the case study methodology. This was supplemented by quantitatives research tools through collection of both primary and secondary data. Various social research tools like interviews and focus group discussion were used for the study. Rapid assessment was done to understand the depth of the underlying issues. The method involves direct observation, informal conversation, key-informant interviews and participant observation concerned with employment scenario, entrepreneurship scenario, potential areas which would involve large labour forces, entrepreneurship related behaviours, knowledge, attitudes and practices (KAP), crucial entry points for intervention and local responses to entrepreneurship development. Conceptual issues included the structure of incentives, the complex relationship between cognition and behaviour, and how people respond to the components and factors of labour and entrepreneurship issues. Cases were analyzed through financial ratios and simple statistical tools. The sampling was done by Judgment Sampling Technique. Since only few NGOs/MFIs are working in Sonitpur District, and not all are involved in micro-credit, only three MFIs are selected viz., Sonali SHG Unnayan Samiti, Mahila Sakti Kendra (MASK) and GRAMIN (Microfinance) in Sonitpur District which have been involved in micro-credit operations from 2005 onwards.

Organization Philosophy, Equity Shareholders and Structure of MFIs

In this study, we have surveyed three organizations: (i) Sonali SHG Unnayan Samiti, (ii) Mahila Sakti Kendra (MASK), and (iii) GRAMIN (Microfinance).

Each of these has its own organisational philosophy and operational structure:

Sonali SHG Unnayan Samiti (MFI) is a federation of Self-Help Groups (SHGs) and was established on 1st April 2000. Subsequently it was registered as an NGO on 8th February 2005 under Societies Registration Act, 1960. The SHGs that formed the federation in April 2005 were originally promoted by 122 SHGs with 1,830 SHG members. The aim of Sonali MFI is organizing dedicational service in the field of vocational, productive, financial programmes and activities through self-support system and means along with the target of inculcating congenital socio-economic, ecological atmosphere in the society. At present, 122 SHGs are the shareholders of Sonali MFI. Minimum and maximum number of members in a SHG according to Swarnajayanti Gram Swarozgar Yojna (SGSY) is 10 and 20, respectively. Hence, total number of equity shareholders is 1,830. The General Body Members are 244 from 122 SHGs. The members are the Presidents and Secretaries from each of the 122 SHGs. Executive Committee members is 31. There is a Financial Advisory board which distributes duties and responsibilities of members/staffs/office bearers and has the sole authority to prepare any other financial programmes.

MASK, a federation of Self-Help Groups (SHGs), was established on 1st April 2002 and was registered on 8th February 2006 under Societies Registration Act, 1960. The SHGs that formed the federation in April 2002 were originally promoted by Gana Chetana Samaj (GCS), Balipara. The vision of MASK is to empower the poor and marginalized, especially women, to bring about social change in their status, and transformation in society. At present there are 86 SHGs comprising approximately 1,500 members in MASK. All the members contribute Rs.20 each per month to their respective SHG and the total amount so collected forms a source of finance for the SHG to their individual members.

All these SHG members are the equity shareholders of MASK. The seed money of MASK was Rs.10,00,000. This money was collected from numerous donors from Mumbai and some amount from the local donors. The present President and the Secretary Mr. Eliza Boro and Mr. Sushila Orang, respectively, went to Mumbai for a seminar and requested for some seed money to help the poor people through microfinance in some seminars and conferences. They received a positive response and formed a corpus of ten lakhs. This money is used to help the various SHG members through microfinance if the applicant's respective SHG is having insufficient fund. The Governing Body has the authority to take principal key decisions and it consists of 7 members. Moreover, there is a General Body comprising of 26 members. The Area Co-ordinators Committee of MASK is the loan sanctioning authority. Two Governing Body members of MASK, along with the Area Coordinators representing clusters of SHGs, form the Area Co-ordinators Committee. The President or the Vice-President or the Secretary of MASK will be in the Committee along with any other Governing Body members of MASK.

GRAMIN was founded in 1995 with the aim of organizing the rural people into SHG, motivating them to develop their socio-economic conditions by engaging in income generating schemes, organizing skill development training for them, linking them with banks for their microfinance requirements and arranging links for marketing their products. However, over the years, it was found that the pace of development was rather sluggish and in most cases it was because of non-availability of bank loans for investment and, in some cases, because of lack of proper training for the chosen activity. It was for these reasons that GRAMIN decided to open its microfinance operations in 2005 and, by the end of the year, GRAMIN Microfin had a outstanding of INR 4.6 million. GRAMIN is for rural income generation, for socio-economic development of the rural people, for betterment of the society; and thus GRAMIN Microfin has decided to be the most sought after microfinance Institute in the region. The aim of GRAMIN is to be growth oriented and client friendly microfinance product and service provider to the poor and prospective entrepreneurs in a transparent and equitable manner with respect to its client.

The Vision of GRAMIN (Microfin) is to emerge as the most sought after and trusted MFI in Assam by 2020. There are 12 members in the Governing Body of GRAMIN. The Governing Body comprises of Chairman-cum-CEO and General Manager at the top hierarchy. Below them are the Operational Manager, HR Manager and Finance and Accounts Manager. Next level is Zonal Managers followed by Branch Managers. The Branch Managers work with the Credit Officers (also called Field Officers). GRAMIN has borrowed the seed money from APEX Bank, ICICI Bank, and SIDBI.

Thus we see that each of these three MFIs has uniqueness in their philosophy, fund raising style, and organisational structure.

Microfinance Products and Services

Sonali MFI has three range of products—Fixed Deposit, Recurring Deposit, and Micro-credit. The recurring deposits amount starts from Rs.5 to Rs.200 daily. The Loan Officer collects the recurring deposits instalments visiting the place of the beneficiaries either daily or weekly. The Micro-credit scheme is again divided into two forms—Demand Loan (DL) and Advanced Term Loan (ATL). The quantum of Demand Loan is generally 80 % of the total deposit in the form of either Recurring Deposit or Fixed Deposit and is disbursed within an hour. This Demand Loan largely helps the beneficiaries for their urgent medical and educational requirements. The other form of loan given by Sonali Microfinance is the Advanced Term Loan (ATL).

The Advanced Term Loan (ATL) amount ranges from minimum Rs.5,000 to maximum Rs.20,000. In some special cases, if the loan demand by the beneficiary is more than Rs.20,000, say Rs.40,000, then the loan is sanctioned in the name of two members of the same family. Duration of the loan is very much flexible in nature. The loan officers ask the beneficiaries about how much they can afford to repay from the loan amount per month and, accordingly, the duration of the loan is fixed. Minimum period of the loan is 3 months. Any beneficiary can repay the loan even after a single day, but an interest of at least 3 months has to be paid.

MASK offers only micro-credit to the members of its member SHGs. The quantum of loan given to the tune of 1:4 of the group's total capital. For the first time loan is given up to a limit of Rs.10,000, for the second time, the loan is in the ratio of 1:3 and the third time it is in the ratio of 1:4 of the groups capital. The maximum limit is 1:4 of the group's capital. Loans are given for a maximum period of three years. The Area Coordinators Committee has the authority to sanction loans up to Rs.1,00,000. Any application for a loan above Rs.1,00,000 will be decided by the Governing Body of the MASK.

GRAMIN, on the other hand, offers micro-credit to the members of SHGs, Joint Liability Groups (JLG), Individuals and Businessmen. For the members of SHGs and JLGs the amount of loan starts from Rs.3,000 with a maximum amount of Rs.5,000 to each member. But for financially sound individuals and businessmen, GRAMIN grants loan maximum up to Rs.25,000. There is a fixed repayment period of 50 weeks for the beneficiaries of the loans. In case of any earlier loan settlement, the beneficiary has to pay full interest of 50 weeks.

Microfinance and Interest Rates

Sonali MFI charges a flat rate of 2% interest per month on the principal amount Therefore, the annual rate of interest is 24% and the interest is charged on reducing balances. For example, if the loan amount is Rs.10,000 and if the beneficiary agrees to repay the principal amount of Rs.500 per month, then his loan repayment schedule is given in Table 1:

TABLE 1

Repayment Pattern

No. of Months	Principal	Interest	EMI	Balance Amount
1	500	200	700	9500
2	500	190	690	9000
3	500	180	680	8500
4	500	170	670	8000
5	500	160	660	7500
6	500	150	650	7000
7	500	140	640	6500
8	500	130	630	6000
9	500	120	620	5500
10	500	110	610	5000
11	500	100	600	4500
12	500	90	590	4000
13	500	80	580	3500
14	500	70	570	3000
15	500	60	560	2500
16	500	50	550	2000
17	500	40	540	1500
18	500	30	530	1000
19	500	20	520	500
20	500	10	510	0

Thus, Total Loan Taken = Rs.10,000

Total Interest Paid = Rs.2,100

Therefore, Effective Rate of interest paid by the beneficiaries

= (Total Interest Paid/Total Amount of Loan) * 100

= (Rs.2,100/Rs.10,000) * 100 = 21 %

Thus we find that the effective rate of interest is 21% which is 1.75% per month.

Loan Duration = Total Loan Taken / Affordable Amount

= Rs.10,000 / Rs.500 = 20 instalment

MASK charges an interest rate of 0.5% per month which is around 6% per annum on reducing balances. Following the same procedure above, the effective rate of interest is found to be 5.25% per annum. Interest has to be paid on quarterly basis. MASK can give loan at such a low interest rate because the loan is given out of the seed money Rs.10,00,000 which is collected from the donors and this amount need not to be repaid.

GRAMIN (Microfinance) offers different rates of interest for different categories of beneficiaries. An interest rate of 18% per annum is charged from the SHG members whereas 24% per annum interest rate is charged from individuals and businessmen on reducing balances. The interest charged to the JLG loan is flat 15% per annum on reducing balance. The mode of payment of interest and principal is weekly for the JLG members and monthly for the SHGs, Individuals and Businessmen.

Prerequisites for Microfinance

Sonali MFI provides loan only to the persons who are members of the society and the membership period should be at least 6 months old irrespective of any amount of their deposit.

MASK offers loans in the form of Micro-credit Assistance only to the SHGs and not directly to individuals. Loans are given only after a year of formation of a group. The groups must have an experience of at least six months in internal lending (i.e., from its own resources). Once any SHG qualifies the above criteria, then the group will be rated based on some parameters. If the group secures 75% and above, then only it is eligible for the loan.

For GRAMIN (Microfinance) the eligibility criteria vary for different categories of beneficiaries. For loan given to JLG and SHG members, the beneficiary has to be a member of the respective groups. There are no fixed criteria for the loan to be given to individuals and businessmen. Credit Officers along with the Branch Managers decides the individual creditworthiness of the borrower and forwards the loan application to the higher authorities.

Micro-credit Delivery System

When a person seeks a loan from Sonali Microfinance, he is referred to the nearest Area Collector (also called the Agent). At present, Sonali Microfinance has more than 315 Area Collectors. Then the person contacts the Area Collector and writes an application with his assistance. The Area Collector is a local agent and generally knows the loan applicant and his creditworthiness. Then depending upon the applicant's creditworthiness, Area Collector forwards the application to Head office which is located at Khelmati. There is an Advisory Council comprising of 7 members and the Council has the authority to sanction the loan. Initially the Council again forwards the application form to the Loan Officer and asks them to verify the actual loan requirement. The Loan Officers then visits the family of the applicant. He surveys the authenticity and genuineness of the loan amount and type of business proposed to be conducted. Once the Loan Officers are satisfied with the genuineness of the loan requirement and success of the proposed business, then the application is forwarded to the Advisory Council who in turn sanctions the loan. Then, if the loan is sanctioned, the applicant is asked to come to the Head office with relevant documents to collect the loan amount. Documents are in the form of residence certificate given by Gaon Panchayat Mukhiya, electricity bill, photograph, ration card representing the loan applicant's identity and address proof. The applicant is also asked to bring a Stamp Paper on which an agreement is made between the loanee and the Sonali Microfinance and the required loan amount is delivered to the beneficiary.

When any SHG member requires loan from MASK, the loan application form has to submit to the Area Coordinator of the respective Cluster. MASK forms SHG in various villages in Clusters. The number of members in a SHG ranges from 10 to 20. If there are more members, then MASK forms different SHGs in a village and combines them into a single Cluster. The Area Coordinator will handover the application to a field staff of MASK. The field staff will, in turn, submit a report on a prescribed format on the functioning of the group after interacting with the members and also inspect its books of accounts and various relevant records. The field staff will then return the application form with his comments on the report and forward it to the respective Area Co-ordinator. The Area Coordinator will then present the application along with his comments at the Area Coordinators' Committee Meeting which is held once a month. The members present in the Area Coordinators' Committee Meeting will seek for explanation and clarification about the authenticity of the loan. After a through discussion, a resolution is taken. In case the group has not been assessed, an assessment of the group is done based on the NABARD format. However, a loan could be sanctioned conditionally before the assessment report of the group. Loans are given by cheque. Only in emergencies like hospitalization etc. loans are given in cash based on a request made by the President and the Secretary of the SHG and the formalities are completed later. The Area coordinator of the respective group informs the SHG of the Area Coordinator's decision. In case the loan is sanctioned, the President and the Secretary of the Group would collect the cheque from the the Head office of MASK within a week on any working day from 9 am to 11 am. Before receiving the loan all the members of the group will have to sign a Promissory Note in a prescribed format. The President and Secretary has to affix their stamp and sign on the reverse of the cheque, payment voucher and repayment schedule of MASK. This completes the micro-credit delivery process to its beneficiaries.

GRAMIN (Microfinance) adopts different mechanism of micro-credit delivery to its beneficiaries. When any category of loan application—whether it is from SHG or JLG or Individual or Businessmen—is received in the Branch Office, the application is forwarded to the Credit Officer who works under direct supervision of the Branch Manager. The Credit Officer visits the place of the loan applicant and interacts with his neighbors and family members and tries to find the authenticity of his loan requirements. Once the Credit Officer is convinced about the genuineness of the loan, then the Branch Manager along with him again visits the place of the applicant. The Branch Manager then investigates about the past credit history of the applicant from his neighbours.

He also evaluates the business model proposed by the applicant with respect to the current market scenario and finds out whether the business would be profitable or not. Once the Branch Manager is satisfied with the authenticity of the loan requirement and profitability of the proposed business, he forwards the application to the Operational Manager. Operational Manager puts his comments and forwards the application to the General Manager. Finally, the Chairman-cum-CEO approves the loan. The Branch Manager is informed about the decision and the applicant receives the loan amount earliest within 2 weeks, but definitely within a maximum period of 12 weeks.

Micro-credit Monitoring

In Sonali MFI, micro-credit monitoring is done quarterly. If it is found that a beneficiary is not making any repayments of the loan for the last three months, then a notice is sent to the Area Collector/Agent through whom the loan process was initiated. The Area Collector investigates about the matter and asks the beneficiary to pay the monthly instalments within 15 days. When the 15 days' time period is over, then the Loan Officer again makes 2 to 3 visits and asks the beneficiary to pay the instalments. Even after this, if the payment is not made, then the Area Collector sends the Executive Group comprising of women members of the SHGs and pressurizes the beneficiary for the repayment of the loan.

The micro-credit monitoring agent of the MASK is called "Animator". Every month one Animator looks after 20 SHGs. At present MASK has 8 Animators for monitoring the loans that are given to the beneficiaries. The Animator plays a vital role in opening bank account, conflict management among the SHG members, Cash Book handling and preparation of Ledger and Trial Balances. Animator prepares the monthly supervision and monitoring report of the SHGs. Every Saturday staff meeting is held for regular and effective micro-credit monitoring. Generally, the meeting of the Presidents and Secretaries of all SHG is conducted twice in a year. There is a system of cross-checking of the performance of Animators. In Area Coordinators' Meeting, an assessment of the Animators is also done. From 2005, MASK has no record of any default loans till May 2009.

GRAMIN (Microfinance) regularly monitors the present status of all its loans to different categories of beneficiaries by conducting a weekly meeting. GRAMIN is really dynamic in micro-credit monitoring in the sense that all the key officials starting from Zonal Manager, Operation Manager, HR Manager, Finance & Accounts Officer and the Chairman-cum-CEO meets every week for better and effective micro-credit monitoring of the loans disbursed; and they also critically analyse the repayment schedule of the beneficiaries. Besides this weekly meeting, the Branch Managers from all the Zones meet once every month in the Head Office and discuss the various problematic loan issues. The Branch Manager monitors the loan repayment regularly. In case of any non payment of weekly or monthly loan instalments, he discusses and tries to find out the reason of non-payment with the beneficiary.

Repayment Rates

It is the repayment rate of MFIs that has attracted the attention of everyone in the world related to the financial system. When the professionally managed commercial banking system carries huge amount of non performing assets (NPA) around the world, the MFIs of Bangladesh showed a repayment rate of 98-100%. The repayment rates of the beneficiaries of the MFIs are most important criteria to measure the efficiency of the entire microfinance system. Repayment rate helps in understanding the behaviour of clients and performance of the institution for a particular on-going period. So far as India is concerned, only 46.5% of the banks has a recovery rate of more than 95% which is evident from Table 2.

TABLE 2

Recovery Performance of Indian Banks

Agency	Total no. of Banks reported recovery	No. of banks based on percentage distribution of recovery perfomance of bank loans to SHRs as on 31 March 2008			
		95%	80-94%	50-79%	less than
Commercial Banks (Public Sector)	25	11	5	8	–
Comercial Banks (Private Section)	8	7	–	1	–
Regional Rural Banks (RRBs)	70	22	25	17	6
Co-operative Banks	726	113	39	51	23
TOTAL	329	153	70	77	29
Percentage of Banks		46.5	21.3	23.4	8.8

Source: NABARD Report 2007-2008

TABLE 3

Repayment Rates of the SONALI, MASK and GRAMIN

Period	Sonali MFI	MASK	GRAMIN
2007-08	98 %	100 %	81 %
2006-07	95 %	100 %	80 %
2005-06	100 %	100 %	79 %

Thus we see the repayment rates of the beneficiaries of the three MFIs are substantially high. Sonali and MASK has an average repayment rate for three years as 97.67% and 100%, whereas GRAMIN—though it is more professionally managed—has got a lower repayment rate of 80%. Thus we can say that the repayment behaviour of the clients of these MFIs are regular and positive and this, in turn, reveals that the loans were utilized for the purpose it was taken and has promoted economic productivity in the concerned places. One advantage of the MFIs over the banks is that they know their beneficiaries more closely compared to the bank knowing their clients. The constant monitoring and peer group pressure are also likely to have contributed regular repayment of loans.

Overall Status of MFIs

The overall status of the MFIs can be had from the (next page) Table 4.

Relationship Building of MFIs

The success of these MFIs has become possible because of their strong contacts and links with other institutions and government machineries. All members regularly visit the block office of the local government for information and have a good rapport with the Block Development Officer. They regularly visit the DRDA and local NGOs. Seeing their interest, various government agencies and NGOs conducted training programmes on goat-raising, piggery, fishery, duckery, horticulture, pisciculture, dairy farming, Golden Grass cultivation and processing. In most meetings, the Block Development Officer, Asst. Agriculture Officer and other govt. bureaucrats/technocrats along with NGOs participated. These NGO-MFIs have established a good relationship with the developmental funding agencies. For example SONALI MFI has a regular contact with DRDA, MASK receives assistance from NABARD in micro-credit monitoring and assessment and GRAMIN (Microfinance) has also established a good relationship with SIDBI, ICICI and APEX Bank. GRAMIN has taken a loan of Rs.1.25 Cr, Rs. 2.5 Cr. and Rs. 0.5 Cr. from APEX Bank, ICICI Bank and SIDBI, respectively.

MFI Capacity Building for Sustainability

The MFIs feel that participation and interaction with external bodies and agencies would reduce the inequalities in their social system. Consequently, they keep good contacts with DRDA, Block Offices, local NGOs and NABARD. In turn, these agencies provided training in pisciculture, piggery, goat-raising, duckery, horticulture, dairy farm management, cultivation, squash and pickle-making.

Conclusion

Thus the above analysis reveals that the innovation of MFIs aims not only to facilitate the promotion and protection of livelihood by providing a range of customized financial products to rural residents but also to include them in the financial system and promote entrepreneurial skills. To fulfil this aim,

TABLE 4

Summary Information of SONALI, MASK and GRAMIN

Particulars	SONALI	MASK	GRAMIN
Date of Initiation	February 2005	February 2006	October 2005
Members (in Nos.)	1,800	1,500	12
Total No. of Staff (in Nos.)	20	8	24
Total No. of Agents (in Nos.)	315	NIL	NIL
Yearly Interest Rate (in %)	24	6	18-24
Total Borrowers (in Nos.)	15,000	300	7,229
No of Women Borrowers (in Nos.)	12,000	210	4,340
No of Male Borrowers (in Nos.)	3,000	90	2,889
Corpus Fund (in INR)	NIL	71,051	15,50,800
Member Contribution (in INR)	16,860	10,950	59,98,141
Grant Received (in INR)	NIL	10,000	12,87,345
Cash in Bank (in INR)	2,49,885	179,194	33,77,239
Cash in Hand (in INR)	1,44,096	134,489	1,38,066
Principal Loan Recovery (in INR)	3,640,429	251,700	1,91,63,423
Bank Loan Received (in INR)	NIL	NIL	1,12,41,353
Total Loan Distribution (in INR)	57,41,250	1,14,000	8,803,500
Principal Loan Repaid to the Bank (in INR)	NIL	NIL	1,55,59,318
Loan Portfolio Outstanding (in INR)	86,56,147	115,501	2,12,43,563
Bank Interest Received (in INR)	64,901	1,823	2,60,108
Interest & Fee Expenses (in INR)	8,095	2809	1,51,317
Loan Processing Fees (in INR)	55,785	72,029	2,57,957
Insurance Premium (in INR)	NIL	NIL	70,063
Administrative Expenses (in INR)	1,15,554	62,208	10,18,345
Fixed Assets (in INR)	4,40,969	5,57,284	6,17,270
Net Income (in INR)527,870	94,579	8,41,556	
Current Asset (in INR)	94,10,879	NA	57,73,042
Current Liability (in INR)	1,00,37,316	NA	7,14,045
Staff Salary (in INR)	6,12,385	49,000	1,24,200

microfinance was strategically channelized through self-help groups. The MFIs are clearly different in nature and they significantly differ in their way to reach poor and maintain sustainability. The micro-credit assessment, micro-credit delivery and micro-credit monitoring system is different for all the MFIs under study. Sonali and MASK works closely with the beneficiaries and is more related with the SHGs than GRAMIN which is more professionally managed group. Sonali, on the other hand, is following a different model, offering recurring deposits and fixed deposits and financially more self-reliant successfully working without any subsidies. Self-help groups (SHGs) are used extensively as an effective tool for poverty alleviation, empowerment and livelihood options and have become a fast-developing commercially viable business proposition.

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