

RURAL FINANCIAL INSTITUTIONS PROGRAMME INDIA

## **An Overview of MFOs in India**

*Consolidated result of 786 MFO profiles*

Ramakrishna Regulagedda

September 2009

**gtz**





Microcredit Innovations Department  
(MCID)  
National Bank for Agriculture and  
Rural Development  
Plot No C24, "G" Block  
Bandra Kurla Complex  
Post Box No. 8121, Bandra (East)  
Mumbai 400051 / INDIA

Phone +91-22-2653 0084  
Telefax +91-22-2652 8141

Email [mcid@nabard.org](mailto:mcid@nabard.org)  
Homepage [www.nabard.org](http://www.nabard.org)



Rural Financial Institutions Programme  
L-20, Green Park Main  
New Delhi 110 016 / INDIA

Phone +91-11-2652 6024  
Telefax +91-11-2652 8612

Email [Marie.Haberberger@gtz.de](mailto:Marie.Haberberger@gtz.de)  
Homepage [www.gtz.de](http://www.gtz.de)

## **Table of Contents**

1. <i>Background</i> _____	9
2. <i>Objectives</i> _____	11
3. <i>Methodology</i> _____	13
4. <i>Evolution of the MFO sector</i> _____	15
4.1. Estimation of number of MFOs _____	15
5. <i>Overview and main characteristics of MFOs</i> _____	17
5.1. Geographic distribution of the MFOs _____	17
5.2. Organisation of MFOs by legal types _____	20
5.3. Range of financial services provided by MFOs _____	23
5.4. Delivery methodology of the MFOs _____	25
5.5. Human resources in MFOs _____	26
5.6. Governance and management of MFOs _____	27
5.7. Funding arrangements in MFOs _____	29
5.8. Book keeping in MFOs _____	30
5.9. Savings and MFOs _____	30
6. <i>MFOs by size of loan portfolio outstanding</i> _____	33
6.1. Review of financial strength of MFOs _____	33
6.2. Capital in MFOs _____	34
6.3. Capital adequacy _____	35
6.4. Asset quality _____	36
6.5. Profitability of MFOs _____	36
7. <i>Conclusions</i> _____	39
7.1. Recommendations _____	40

## List of tables

Table 1: Distribution of MFOs by state _____	17
Table 2: Geographical spread of MFO operations _____	18
Table 3: Districts with large number of MFOs _____	19
Table 4: Range of districts operated by MFOs _____	19
Table 5: Distribution of MFOs by age _____	20
Table 6: Overview of MFOs in India (March 2008) _____	21
Table 7: Overview of MFOs in India excluding the big MFOs (March 2008) _____	22
Table 8: Product mix of MFOs by state _____	23
Table 9: Product offerings of MFOs by legal type _____	24
Table 10: Insurance services offered by MFOs _____	25
Table 11: Delivery methodology of MFOs _____	26
Table 12: Human resources in MFOs _____	26
Table 13: Management and governance in MFOs _____	28
Table 14: Experience of board members of MFOs _____	28
Table 15: MFOs by type of funding arrangements _____	29
Table 16: MFOs by type of funding arrangements related to size of portfolio outstanding _____	29
Table 17: MFOs and book keeping practices _____	30
Table 18: Savings of MFOs- Savings per MFO and Savings per capita _____	31
Table 19: MFOs classified by loan portfolio outstanding _____	33
Table 20: Leverage of MFOs by size of loan portfolio outstanding _____	34
Table 21: Average capital in MFOs _____	35
Table 22: Average capital of MFOs by size _____	35
Table 23: Capital adequacy and leverage of capital of MFOs _____	36
Table 24: Profitability of MFOs _____	37

## **Abbreviations**

AP	Andhra Pradesh
APMAS	Andhra Pradesh Mahila Abhivruddhi Society
BC	Business Correspondent
BF	Business Facilitator
CEO	Chief Executive Officer
D/E	Debt to Equity ratio
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
MACS	Mutually Aided Cooperative Societies Act
MI	Micro Insurance
MIS	Management Information System
MFO	Micro Finance Organisation
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non Banking Finance Company
NGO	Non Government Organisation
NPA	Non Performing Asset
O/s	Outstanding
RFIP	Rural Financial Institutions Programme
SHG	Self Help Group

## **Preface**

Microfinance has grown rapidly over the past decade both in terms of outreach and also in the terms of number of service providers. The sector is diverse with the presence of different players of varying sizes and forms. Usually many service providers called NGO-MFOs go unnoticed because of their geographical locations and limited outreach. Some of the larger MFOs are transforming into regulated institutions and are, therefore, in a position to attract capital from both the private investors and the formal banking system. At the same time, at the other end of the spectrum is the smaller NGO – MFOs about whose outreach and capacities not much is known and therefore they are not in a position to attract capital. Thus, the absence of concrete data-base in this regard comes in the way of the orderly growth of NGO-MFOs which could lead to better financial inclusion.

NABARD-GTZ Rural Finance Program had, therefore, engaged the services of APMAS to compile a comprehensive information-base with a view to understanding the specific requirements of the smaller organizations. The outreach of these organizations may be insignificant, given the size of the country, but their role is crucial and important as they are providing a valuable service to the excluded population.

The data mined from the collected profiles of 786 MFOs from 13 States in the country including abridged balance sheets and profit and loss statements of the MFOs have been analysed and presented in this report. The data have been analysed on a macro level so as to give a better understanding of the different modes of organizations operating in the sector. While the analysis seems good, one should keep in mind that a work of this mammoth nature is bound to have some data inconsistencies because of inadequacy/inaccuracy of the information in the data collection process and the report should be read with this limitation in mind.

Chapter 5 deals with the general overview of the MFOs and analyses the general organization characteristics on state-wide basis and organizational type basis. This could be a sound basis for design of a capacity development plan for the sector. Chapter 6 deals with the financial aspects of the MFOs in a limited context focusing on the capital structure, capital adequacy and the profitability of MFOs. This document, on the whole, forms a sound basis for the understanding of

the sector and for gaining insight, identifying risks and opportunities and in a way serves as a useful guide for policy exploration.

We thank MFOs which have generally responded /cooperated well in providing the information in the given format. APMAS has done a commendable job in the collection of the profiles of such a large number of MFOs in the country. Mr Vijay Kulkarni's efforts towards analysis is sincerely acknowledged. We also sincerely thank Dr Klaus Maurer for reviewing the report.

To sum up, this document is a maiden attempt through collective endeavour to provide a new kind of intelligence from the huge base of collected profiles. It is hoped that will help policy makers initiating appropriate actions for the orderly growth and development of microfinance in the country.

**B B Mohanty**

**Chief General Manager,**

**MCID, NABARD,**

**Mumbai**

Dated: 8th October 2009



## **1. Background**

The latest information from a 2007 survey conducted by Planning Commission estimates the number of persons living below poverty line at 220.7 million. In spite of the vast network of retail banking outlets, a major section of the rural population is excluded by the formal banking system. In this context, microfinance organizations have emerged throughout the country and are providing financial services to people in limited local contexts. The estimates of the number of such organizations are not clear and the number ranges from 800 to 1,500. Incidentally, the estimate of 800 is from the Task Force for Supportive Policy and Regulatory Framework for microfinance set up by NABARD in the year 1998. Various sources estimate the number of MFOs between 800 and 1,500, even by today. Microfinance has grown rapidly over the past decade both in terms of outreach and also in the terms of number of service providers; so called the NGO-MFOs. Usually many service providers go unnoticed because of their geographical locations and limited outreach. Today financial services by MFOs have a market share of close to 12%.

The sector is also diverse with some of the larger MFOs transforming into regulated institutions and are therefore in a position to attract capital from both the private investors and the formal banking system. At the other end of the spectrum are the smaller NGO – MFOs about whose outreach and capacities not much is known and therefore they are not in a position to attract capital. This comes in the way of the orderly growth of NGO-MFO which could lead to better financial inclusion.

### **Need for Inventorisation**

The need for a comprehensive information base is therefore essential, especially as this will help in understanding the specific requirements of the smaller organizations which may be insignificant in outreach given the size of the country, but which at the same time are providing valuable services to the excluded population.



## **2. Objectives**

NABARD GTZ Rural Financial Institutions Programme (RFIP) therefore undertook the task of creating an information base of the NGO-MFOs in thirteen states of the country, focusing mainly on microfinance intensive states. RFIP engaged the services of APMAS to collect and compile a comprehensive information base through a survey of MFOs. This information base will also enhance the understanding of the sector in a better manner and could help the policy makers in designing appropriate framework conditions for the growth of the sector. To reiterate, this process would help in the following ways:

- Get a clearer picture of the microfinance landscape; i.e. total number of MFOs operating in India;
- Get to know the profiles and the nature of activities of MFOs;
- Better understanding of the capacity development needs of the MFOs.



### **3. Methodology**

APMAS used a questionnaire for collection of information on the MFOs across the thirteen identified states. The questionnaire consisted of four parts: Part-1 comprised general information about the organization such as name, address, year of establishment, registration, kind of products offering to clients and the methodology of service delivery. Part-2 mainly focused on the details of sources of funding, human resources and capacities relating to microfinance operations. Part-3 covered the outreach component, especially the geographical spread, number of clients and the amount outstanding, promotion of groups, clusters and their federations. Part-4 of the questionnaire was about the financial performance of the MFO for the last 3 years (up to March 2008). An explanatory note to fill the format was also sent along with the format to make it simple for the MFO filling the format. About 786 MFOs responded with profiles of varying quality. These institutions included NGO-MFOs registered under the Societies Registration Act, Indian Trust Act, Cooperative Societies Act of the states, MFOs registered as for profit NBFCs, as Section 25 companies under the Indian Companies Act and as MACS under the liberal cooperative society's acts of the states. In other words MFOs of whatever institutional type but which are delivering financial services, having minimum of 500 saving members and/or with 1,000 borrowing members were included. The information was collected from 13 states namely: Andhra Pradesh, Bihar, Gujarat, Karnataka, Kerala, Jharkhand, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh and West Bengal. APMAS identified 25 partner organisations in the selected states who could possibly mobilize profiles from their respective states. This included networks and resource NGOs. APMAS undertook an intensive exercise first to locate the MFOs, send out the questionnaires and then collected them back.



#### **4. Evolution of the MFO sector**

Since the last two decades, NGOs have been offering financial services to clients in a limited manner. The success of the SHG bank linkage programme brought NGOs to the forefront and in a way recognized their efforts, some of whom were engaged in financial intermediation. Since in the non-formal sector, the microfinance efforts were led by the NGOs, microfinance was taken up in a developmental mode rather than as a commercial financial intermediation activity. The NGOs were registered either as societies, trusts, cooperatives and not -for -profit companies since it aligned well with their social mobilization work and since financial intermediation was not anyway their core engagement with the people. Also important is the fact that NGOs are formed with a voluntary spirit and profit making is anyway not a motive for such institutions. As the NGOs grow over a period of time, they realize the limitations of their structure and look for alternate forms of organizations in order to continue providing financial services on a more sustainable basis to clients. Some of the erstwhile NGO-MFOs have been successful in transforming themselves into organizational forms more suited for financial intermediation which are normally the companies. As a result, microfinance institutions (MFIs) in India can now be found in the form of for profit non-bank finance companies (NBFCs) as well as not for profit companies.

##### **4.1. Estimation of number of MFOs**

The present survey has been successful in capturing data of about 786 MFOs from the thirteen microfinance intense states. Sa-Dhan's database comprises about 124 MFOs not captured by the present survey. The North-East also has close to 120 MFOs not captured by the present survey. The total MFOs operating in the country would work out to a figure of 1,000 adding the above figures including a 10% margin of error in estimation.



## 5. Overview and main characteristics of MFOs

The inventorisation survey reveals that microfinance sector in India consists of approximately 800 Microfinance Organizations (MFOs) of different nature and size. The main characteristics of the MFO sector are summarized in the following pages. The analysis is based on consolidation of the organizational and the financial information collected from the MFOs.

### 5.1. Geographic distribution of the MFOs

**Table 1: Distribution of MFOs by state**

	State	No of MFOs	Share (%)
1	Andhra Pradesh	484	62%
2	Bihar	44	6%
3	Gujarat	8	1%
4	Jharkhand	1	0%
5	Karnataka	20	3%
6	Kerala	18	2%
7	Madhya Pradesh	14	2%
8	Maharashtra	15	2%
9	Orissa	28	4%
10	Rajasthan	18	2%
11	Tamil Nadu	101	13%
12	Uttar Pradesh	5	1%
13	West Bengal	30	4%
		<b>786</b>	<b>100%</b>

There is a high geographic concentration with 75% of MFOs in two states only: Andhra Pradesh 62% and Tamil Nadu 13%, while the remaining 25% are scattered over 11 states. Incidentally the states with a high concentration of MFOs also have a high concentration of SHGs and substantial credit linkages of these SHGs to the banks. The southern states are also states with a high banking density. Bihar with 44 MFOs is third in the states with large presence of MFOs.

**Table 2: Geographical spread of MFO operations**

<b>State</b>	<b>1 State</b>	<b>2 to 5 States</b>	<b>6 to 10 States</b>	<b>&gt;10 States</b>	<b>Grand total</b>
Andhra Pradesh	476	6	1	1	484
Tamil Nadu	94	7			101
Bihar	39	5			44
West Bengal	30				30
Orissa	27		1		28
Rajasthan	16	2			18
Karnataka	15	5			20
Kerala	15	3			18
Madhya Pradesh	14				14
Maharashtra	14	1			15
Gujarat	7	1			8
Uttar Pradesh	2	3			5
Jharkhand	1				1
<b>Grand total</b>	<b>750</b>	<b>33</b>	<b>2</b>	<b>1</b>	<b>786</b>
<b>%</b>	<b>95</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>100</b>

The MFO sector is highly atomized and decentralized: 95% of MFOs operate in only one state. Only 36 MFOs operate in more than one state. Only one MFO has a truly wider presence in most of the less developed states in the country, but also in the southern states. MFOs which have a pan India presence are necessarily registered as NBFCs and one hardly sees NGO-MFOs operating in more than one state. There was one NGO-MFO registered as a Society in Andhra Pradesh which had ambitions to spread to other states in the late 90s but it could not realize its dreams partly due to its business model.

**Table 3: Districts with large number of MFOs**

Andhra Pradesh		Tamil Nadu	
District	No. of MFOs	District	No. of MFOs
Chittoor	76	Thiruvannamalai	11
Nalgonda	55	Kanchipuram	10
Anantapur	78	Madurai	9
Cuddapah	49	Villupuram	8
Adilabad	76	Chennai	7
West Bengal		Orissa	
Kolkata	16	Sambalpur	5
24 Parganas	4	Bhubaneswar	3
Howrah	4	Kalahandi	3
Purba Medinipur	7	Cuttack	2
Jalpaiguri	1	Ganjam	2

Chittoor and Adilabad in Andhra Pradesh have the highest number (76) of MFOs. Nalgonda, Nizamabad, Anantpur, Cuddapah have more than 40 MFOs. No other district in any state has so many MFOs operating. Among other states, only Kolkata (West Bengal) Kanchipuram and Thiruvannamalai (Tamil Nadu) have 10 or more MFOs. This augurs well for the clients as they have a wider choice for financial services and the competition between these MFOs could contribute towards improving the quality of financial services.

**Table 4: Range of districts operated by MFOs**

State	1	2-5	6-10	11-20	21-50	51-100	>250	Grand total
Andhra Pradesh	353	123	2	1	1	2	1	483
Tamil Nadu	78	17	3	3				101
Bihar	21	20	2		1			44
Orissa	16	7	3		1	1		28
Rajasthan	14	3	1					18
Maharashtra	11	2	1	1				15
West Bengal	11	15	4					30
Kerala	9	7	1	1				18
Madhya Pradesh	8	6	1					15
Karnataka	7	2	7	4				20
Gujarat	2	4	2					8
Jharkhand		1						1
Uttar Pradesh		2	2	1				5
<b>Grand total</b>	<b>530</b>	<b>209</b>	<b>29</b>	<b>11</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>786</b>
<b>%</b>	<b>68%</b>	<b>27%</b>	<b>4%</b>	<b>1%</b>	<b>6%</b>	<b>7%</b>	<b>8%</b>	

As can be seen from the above 530 MFOs (68%) operate in only one district. Close to a quarter of them operate in 2 to 5 districts. 93% MFOs operate in less than 5 districts. Again MFOs from AP, Bihar and Tamil Nadu have ventured into more districts compared to MFOs from other states.

**Table 5: Distribution of MFOs by age**

State	< 5 years	6-10 years	10-15 years	15-20 years	> 20 years
Andhra Pradesh	304	125	29	11	2
Bihar	20	16	5	0	1
Gujarat	3	4	1	0	1
Jharkhand	1	0	0	0	0
Karnataka	10	7	1	0	0
Kerala	1	9	6	1	0
Madhya Pradesh	9	3	2	1	0
Maharashtra	8	4	1	1	0
Orissa	14	8	5	1	0
Rajasthan	11	2	3	1	1
Tamil Nadu	48	39	7	3	0
Uttar Pradesh	4	0	0	0	0
West Bengal	11	13	5	1	0
<b>Total (Percentage)</b>	<b>444 (58%)</b>	<b>230 (30%)</b>	<b>65 (8%)</b>	<b>20 (3%)</b>	<b>5 (1%)</b>

The majority of MFOs i.e. 444 (58%) are rather young and have been established in the past five years. The remaining 42% of MFOs are quite mature: 30% being between 6 and 10 years, 12% over 10 years old and 5 MFOs which have been in the business for more than 20 years.

## **5.2. Organisation of MFOs by legal types**

There are a variety of financial institutions of diverse legal forms providing microfinance services in India. According to the Task Force Report on Supportive Policy and Regulatory Framework for microfinance by NABARD, the MFOs can broadly be sub-divided into three categories of organizational forms.

- ‘Not for Profit MFOs’ or ‘NGO-MFOs’ – Societies, Trusts and ‘Not for Profit Companies’;
- ‘Mutual Benefit MFOs’ - generally in the cooperative sector comprising State Credit Cooperatives, National Credit Cooperatives and Mutually Aided Cooperative Societies (MACS);

- The third category is 'for Profit MFOs' which would cover Non-Banking Financial Companies (NBFCs) registered under the Companies Act, 1956.

Based on the above definition and the legal type of organizations, MFOs can be categorized into three main types: companies, NGO-MFOs and mutual benefit MFOs. These three types are distinctly different in many aspects.

**Table 6: Overview of MFOs in India (March 2008)**

Type of MFO	No	Share (%)	Loans O/s (Rs million)	Share (%)
<b>Mutual Benefit MFOs</b>				
Cooperatives	3	0	444	1
MACS	445	57	2,578	6
<b>Sub Total</b>	<b>448</b>	<b>57</b>	<b>3,022</b>	<b>7</b>
<b>Companies</b>				
NBFCs	24	3	27,005	65
Section 25 Co	9	1	1,023	2
<b>Sub Total</b>	<b>33</b>	<b>4</b>	<b>28,028</b>	<b>67</b>
<b>NGO-MFOs</b>				
Societies	199	25	5,334	13
Trusts	106	13	5,033	12
<b>Sub Total</b>	<b>305</b>	<b>39</b>	<b>10,367</b>	<b>25</b>
<b>Totals</b>	<b>786</b>	<b>100</b>	<b>41,417</b>	<b>100</b>

Each type is found in again two distinct legal forms, as shown in table above. The microfinance sector has grown considerably in recent years, and the total loans portfolio outstanding amount of Rs 41,417 millions as on March 2008.

The MFO sector is extremely polarized in terms of numbers and loan volume: only 4% of MFOs (companies) account for 67% of the total loans outstanding, while 57% (Mutual Benefit MFOs) account for only 7% of the loans. NGO-MFOs take a middle rung with 39% in numbers and 25% of the loan amount. In each of these categories of MFOs, there are a set of what one may call the "Big Sized MFOs". In the table below, the bigger MFOs under each category (1 Cooperative, 5 MACS, 5 NBFCs, 3 Section 25 companies, 5 Societies and 4 Trusts) have been excluded. 3% of the big MFOs accounting to almost 34 % of the loan portfolio outstanding.

**Table 7: Overview of MFOs in India excluding the big MFOs (March 2008)**

Type of MFO	No	Share (%)	Loans O/s (Rs million)	Share (%)
<b>Mutual Benefit MFOs</b>				
Cooperatives	2	0	23	0
MACS	440	56	2,285	6
<b>Sub Total</b>	<b>442</b>	<b>56</b>	<b>2,308</b>	<b>6</b>
<b>Companies</b>				
NBFCs	19	2	19,069	46
Section 25 Co	6	1	530	1
<b>Sub Total</b>	<b>25</b>	<b>3</b>	<b>19,599</b>	<b>47</b>
<b>NGO-MFOs</b>				
Societies	194	25	4,106	10
Trusts	102	13	1,597	4
<b>Sub Total</b>	<b>296</b>	<b>38</b>	<b>5,703</b>	<b>14</b>
<b>Totals</b>	<b>763</b>	<b>97</b>	<b>27,610</b>	<b>66</b>

As can be seen from the above tables, MACS are by far the most preferred organizational form for MFOs. Number-wise, the domination of MACS and NGO-MFOs in the sector is clear. Loan portfolio wise, NBFCs and not for profit Section 25 Companies dominate the microfinance sector.

Since MFOs are meant for financial intermediation as the major business and providing other financial services, scaling up and growth are important for efficiency and efficacy. While societies and trusts could provide an initial breakthrough to kickstart microfinance operations; these structures are not appropriate for supporting the scaling up of operations, do not have professional governance structures and hampers the process of resources mobilization. The ideal legal form which will address the above concerns are companies and NBFCs which have a clear ownership structure, governance and professional arrangements.

### 5.3. Range of financial services provided by MFOs

The full range of financial services provided by MFOs includes: Savings, Credit, Insurance and Remittances. 29 MFOs have reported that they provide all these 4 services. The three critical services of MFOs namely savings, credit and insurance are provided by 262 (38%) MFOs; 112 MFOs (16%) only provide loans.

**Table 8: Product mix of MFOs by state**

State	Only Loans	Loans, Savings	Loans, Savings, Insurance	Loans, Savings, Insurance, Remittance
Andhra Pradesh	44	33	201	22
Bihar	9	7	10	
Gujarat	2	4		
Jharkhand	1			
Karnataka	5	2	1	1
Kerala		6	5	1
Madhya Pradesh	1		9	
Maharashtra	3	3	4	
Orissa	4	1	10	
Rajasthan	1	4	6	2
Tamil Nadu	31	24	9	3
Uttar Pradesh	3			
West Bengal	8	4	7	
<b>Total</b>	<b>112</b>	<b>88</b>	<b>262</b>	<b>29</b>
<b>%</b>	<b>16</b>	<b>13</b>	<b>38</b>	<b>4</b>

**Table 9: Product offerings of MFOs by legal type**

Type of MFO	No	Share (%)	Savings	Loans	MI	Remittances
<b>Mutual Benefit MFOs</b>						
Cooperatives	3	0	3	3	2	0
MACS	445	57	280	439	366	68
<b>Sub Total</b>	<b>448</b>	<b>57</b>	<b>283</b>	<b>442</b>	<b>368</b>	<b>68</b>
<b>Companies</b>						
NBFCs	24	3	0	24	14	2
Section 25 Co	9	1	2	9	4	0
<b>Sub Total</b>	<b>33</b>	<b>4</b>	<b>2</b>	<b>33</b>	<b>18</b>	<b>2</b>
<b>NGO-MFOs</b>						
Societies	199	25	112	188	117	19
Trusts	106	13	56	100	30	15
<b>Sub Total</b>	<b>305</b>	<b>39</b>	<b>168</b>	<b>288</b>	<b>147</b>	<b>34</b>
<b>Totals</b>	<b>786</b>	<b>100</b>	<b>453</b>	<b>763</b>	<b>533</b>	<b>104</b>

Low income clients feel a greater need for savings services primarily as a means for safe keep of tiny sums in order to smoothen household cash flow. They also need to save as an insurance against emergencies, life cycle events and consumption needs in lean seasons. Except for MACS no other organizational form of MFOs are allowed to mobilize savings. Even MACS can only mobilize savings from their members. None of the NBFCs surveyed provide savings services to their clients. The MFOs who have reported that they provide savings services are extending such services through their SHGs and the savings collected do not seem to reflect in the books of the MFOs. In other words the savings of such SHGs are not always parked with the MFOs.

**Table 10: Insurance services offered by MFOs**

Type of MFO	No	Life insurance	Health insurance	Asset insurance	Pension
<b>Mutual Benefit MFOs</b>					
Cooperatives	3	1	1	1	1
MACS	445	356	84	149	148
<b>Sub Total</b>	<b>448</b>	<b>357</b>	<b>85</b>	<b>150</b>	<b>149</b>
<b>Companies</b>					
NBFCs	24	17	6	2	0
Section 25 Co	9	4	3	1	0
<b>Sub Total</b>	<b>33</b>	<b>21</b>	<b>9</b>	<b>3</b>	<b>0</b>
<b>NGO-MFOs</b>					
Societies	199	127	61	27	7
Trusts	106	28	13	4	5
<b>Sub Total</b>	<b>305</b>	<b>155</b>	<b>74</b>	<b>31</b>	<b>12</b>
<b>Totals</b>	<b>786</b>	<b>533</b>	<b>168</b>	<b>184</b>	<b>161</b>

The clients at the bottom of the pyramid have income streams that are low, uneven and variable. The ability to cope with risk is therefore minimal and therefore they feel the need for insurance services primarily for mitigating risks against assets, health and life. The above table reflects that close to 70% of the MFOs offer the basic minimum of life insurance services to their clients. A greater proportion of MACS clients seem to have access to a range of insurance and pension services.

#### **5.4. Delivery methodology of the MFOs**

MFOs deliver financial services through different lending technologies. The popular lending technologies/methodologies among the MFOs are the SHG, Grameen, Individual and Cluster, 456 MFOs have mentioned SHG as one of their models. 427 MFOs seem to organize the SHGs as clusters and federations, 106 MFOs are reported to deliver microfinance services through individual clients while close to 95 MFOs deliver services through Grameen groups. There are 11 MFOs which deliver through both, Grameen groups and individuals. SHG model of lending seems to be the most preferred delivery methodology among the MFOs.

**Table 11: Delivery methodology of MFOs**

Type of MFO	No	Share (%)	Individuals	SHGs	Grameen groups	Clusters
<b>Mutual Benefit MFOs</b>						
Cooperatives	3	0	3	1	1	0
MACS	445	57	30	172	17	344
<b>Sub Total</b>	<b>448</b>	<b>57</b>	<b>33</b>	<b>173</b>	<b>18</b>	<b>344</b>
<b>Companies</b>						
NBFCs	24	3	11	6	16	2
Section 25 Co	9	1	3	7	2	0
<b>Sub Total</b>	<b>33</b>	<b>4</b>	<b>14</b>	<b>13</b>	<b>18</b>	<b>2</b>
<b>NGO-MFOs</b>						
Societies	199	25	51	173	49	59
Trusts	106	13	8	97	10	22
<b>Sub Total</b>	<b>305</b>	<b>39</b>	<b>59</b>	<b>270</b>	<b>59</b>	<b>81</b>
<b>Totals</b>	<b>786</b>	<b>100</b>	<b>106</b>	<b>456</b>	<b>95</b>	<b>427</b>

**5.5. Human resources in MFOs****Table 12: Human resources in MFOs**

Type of MFO	No	Share (%)	No of Staff	Staff in microfinance	Average staff per MFO in MF	Staff trained
<b>Mutual Benefit MFOs</b>						
Cooperatives	3	0	77	60	20	27
MACS	445	57	5,046	3,991	9	2,864
<b>Sub Total</b>	<b>448</b>	<b>57</b>	<b>5,123</b>	<b>4,051</b>	<b>9</b>	<b>2,891</b>
<b>Companies</b>						
NBFCs	24	3	23,902	21,302	888	6,836
Section 25 Co	9	1	714	585	65	461
<b>Sub Total</b>	<b>33</b>	<b>4</b>	<b>24,616</b>	<b>21,887</b>	<b>663</b>	<b>7,297</b>
<b>NGO-MFOs</b>						
Societies	199	25	16,440	9,324	47	7,090
Trusts	106	13	6,101	3,740	35	3,707
<b>Sub Total</b>	<b>305</b>	<b>39</b>	<b>22,541</b>	<b>13,064</b>	<b>43</b>	<b>10,797</b>
<b>Totals</b>	<b>786</b>	<b>100</b>	<b>52,280</b>	<b>39,002</b>	<b>50</b>	<b>20,985</b>

As can be seen from the table above 75% of the staff working in the MFOs are employed in microfinance. NBFCs and companies have the largest proportion of staff working in microfinance while NGO-MFOs i.e. Societies and Trusts have the smallest proportion of staff involved

in microfinance at 58%. This could indicate that for NGO-MFOs microfinance is not the predominant area of involvement and that microfinance is an add-on area of engagement. The average number of microfinance staff per MFO is close to 50. This could be very high for companies and NBFCs where the average staff per MFO is 663 and the staff per MFO for the mutual benefit group of MFOs is only 9.

Data from the survey also reveals that 2/3<sup>rd</sup> of MFOs have total staff in the range of 6 to 25. 9% MFOs have more than 100 staff. Andhra Pradesh, Tamil Nadu have more MFOs in the staff range of 6 to 10 which means many small MFOs are operating in these states. West Bengal, Karnataka and Kerala have a higher representation of MFOs with more than 100 staff. In Orissa, AP, Karnataka and Tamil Nadu, the majority of staff are involved in microfinance work. For MFOs in Rajasthan, Gujarat, Kerala, Madhya Pradesh and Jharkhand, microfinance is not the major work. 40% MFOs have staff in the range of 6 to 10 and a quarter of MFOs have less than 5 staff. Overall in 64% MFOs staff strength is less than 10. About 6% of the MFOs mainly comprising NBFCs and one trust and a few Societies have more than 100 staff each and account for 81% of all the staff working in microfinance sector.

#### **5.6. Governance and management of MFOs**

The average board size for the MFOs across the country is about 11 members. For the professional MFOs which are organized as companies, the board size is often not more than 6 members. The average size of board members for MACS and Cooperatives is the largest at 13 members. Details on the governance and management of MFOs are given in the tables below:

**Table 13: Management and governance in MFOs**

Type of MFO	No	Share (%)	Trained CEO	% MFOs with trained CEOs	Experienced CEO	% MFOs with experienced CEOs	Board members
<b>Mutual Benefit MFOs</b>							
Cooperatives	3	0	3	100	1	33	36
MACS	445	57	328	74	134	30	5,713
<b>Sub Total</b>	<b>448</b>	<b>57</b>	<b>331</b>	<b>74</b>	<b>135</b>	<b>30</b>	<b>5,749</b>
<b>Companies</b>							
NBFCs	24	3	23	96	20	83	144
Section 25 Co	9	1	9	100	9	100	54
<b>Sub Total</b>	<b>33</b>	<b>4</b>	<b>32</b>	<b>97</b>	<b>29</b>	<b>88</b>	<b>198</b>
<b>NGO-MFOs</b>							
Societies	199	25	176	88	162	81	1,811
Trusts	106	13	86	81	64	60	769
<b>Sub Total</b>	<b>305</b>	<b>39</b>	<b>262</b>	<b>86</b>	<b>226</b>	<b>74</b>	<b>2,580</b>
<b>Totals</b>	<b>786</b>	<b>100</b>	<b>625</b>	<b>80</b>	<b>390</b>	<b>50</b>	<b>8,527</b>

**Table 14: Experience of board members of MFOs**

Experience	No of institutions	% to total
Micro Finance	268	39
Social work	231	33
SHG Related	62	9
Cooperative Management	34	5
Agriculture	24	4
Institution Building	23	3
Banking	16	2
Rural Development	13	2
Finance	11	2
Community Development	8	1
Livelihoods	7	1
Accountancy	4	1

85 institutions have not reported. Amongst those who have reported, 39% institutions have indicated that they have board members with microfinance experience. 33% institutions have board members with social work experience. 9% institutions have members who have experience in SHG formation and management. At least 50% of the members of the board are experienced in microfinance or related subjects. Overall MFOs have board members with wide variety of experience like banking, cooperative management, accounts and finance management, livelihood promotion etc.

80% institutions have reported that they have a trained CEO, close to 50% of institutions have reported that their CEO had related experience for leading the MFO.

### 5.7. Funding arrangements in MFOs

The funding arrangements indicate that the bigger MFOs are not dependent on grants and soft loans as much as the NGO-MFOs. Societies and Trusts have been major recipients of soft loans and MACS have been the major recipients of grants. MACS in AP dominate the data in the Mutual Benefit MFOs by being a major beneficiary of a multilateral donor project.

**Table 15: MFOs by type of funding arrangements**

Type of MFO	No	Share (%)	Grants	Soft loans	Commercial loans
<b>Mutual Benefit MFOs</b>					
Cooperatives	3	0	1	10	75
MACS	445	57	2,794	415	1,010
<b>Sub Total</b>	<b>448</b>	<b>57</b>	<b>2,795</b>	<b>425</b>	<b>1,085</b>
<b>Companies</b>					
NBFCs	24	3	34	212	24,211
Section 25 Co	9	1	16	47	1,329
<b>Sub Total</b>	<b>33</b>	<b>4</b>	<b>50</b>	<b>259</b>	<b>25,540</b>
<b>NGO-MFOs</b>					
Societies	199	25	730	1,224	8,185
Trusts	106	13	208	1,419	2,001
<b>Sub Total</b>	<b>305</b>	<b>39</b>	<b>938</b>	<b>2,643</b>	<b>10,186</b>
<b>Totals</b>	<b>786</b>	<b>100</b>	<b>3,783</b>	<b>3,327</b>	<b>36,811</b>

**Table 16: MFOs by type of funding arrangements related to size of portfolio outstanding**

MFOs by size	No	Grants	Soft Loans	Commercial Loans
Rs 0 to 5 million	491	2,510	776	1,281
Rs 5 million to Rs 10 million	122	633	516	479
Rs 10 million to 100 million	129	405	1,398	2,498
Greater than Rs 100 million	44	235	637	32,553
	<b>786</b>	<b>3,783</b>	<b>3,327</b>	<b>36,811</b>

It is also clear from the above table that the smaller MFOs have a greater penchant for attracting grants and the bigger MFOs seem to attract more of commercial capital. MACS dominate the segment of MFOs with less than Rs 5 million loan portfolio outstanding and

NBFCs and companies dominate the segment with higher loan portfolio outstanding. As pointed out earlier, MACS have been the major recipients of donor grant funding.

### 5.8. Book keeping in MFOs

**Table 17: MFOs and book keeping practices**

Type of MFO	No	Share (%)	Double entry bookkeeping	Accrual method of accounting
<b>Mutual Benefit MFOs</b>				
Cooperatives	3	0	2	2
MACS	445	57	413	145
<b>Sub Total</b>	<b>448</b>	<b>57</b>	<b>415</b>	<b>147</b>
<b>Companies</b>				
NBFCs	24	3	24	21
Section 25 Co	9	1	9	7
<b>Sub Total</b>	<b>33</b>	<b>4</b>	<b>33</b>	<b>28</b>
<b>NGO-MFOs</b>				
Societies	199	25	161	60
Trusts	106	13	83	36
<b>Sub Total</b>	<b>305</b>	<b>39</b>	<b>244</b>	<b>96</b>
<b>Totals</b>	<b>786</b>	<b>100</b>	<b>692</b>	<b>271</b>

The table above shows that close to 100 MFOs do not practice double entry book keeping. They still follow singly entry system of accounting. Close to 500 MFOs which practice double entry system of accounting follow the cash system of accounting and not the accrual system.

### 5.9. Savings and MFOs

Except for MACS no other organizational form of MFOs are allowed to mobilize savings. Even MACS can only mobilize savings from their members. The MFOs which have reported that they provide savings services are providing such services through their SHGs and the savings collected do not seem to reflect in the books of the MFOs.

**Table 18: Savings of MFOs- Savings per MFO and Savings per capita**

Type of MFO	No	No of savings clients	Savings outstanding (Rs million)	Savings per MFO (Rs. million)	Savings per client (Rs)
<b>Mutual Benefit MFOs</b>					
Cooperatives	3	21,587	11	3.6	506
MACS	445	916,741	2,267	5.1	2,473
<b>Sub Total</b>	<b>448</b>	<b>938,328</b>	<b>2,278</b>	<b>5.1</b>	<b>2,428</b>
<b>Companies</b>					
NBFCs	24	283,202	0	0	0
Section 25 Co	9	15,763	6	0.7	401
<b>Sub Total</b>	<b>33</b>	<b>298,965</b>	<b>6</b>	<b>0.2</b>	<b>21</b>
<b>NGO-MFOs</b>					
Societies	199	1,605,855	2,121	10.7	1,321
Trusts	106	1,052,364	1,946	18.4	1,849
<b>Sub Total</b>	<b>305</b>	<b>2,658,219</b>	<b>4,067</b>	<b>13.3</b>	<b>1,530</b>
<b>Totals</b>	<b>786</b>	<b>3,895,512</b>	<b>6,351</b>	<b>8.1</b>	<b>1,630</b>

The above table gives the details of savings by each of the MFO type. It can be seen that the per capita savings is the highest in MACS while the savings per MFO is close to Rs. 8 million. The savings mobilized per MACS is close to Rs. 5 million. The savings mobilized through the SHGs intermediated by the NGO-MFOs is higher at Rs 13 million.



## 6. MFOs by size of loan portfolio outstanding

The table below shows those close to 500 MFOs are very small in size as shown by their loan portfolio outstanding of less than Rs 5 million per MFO. Also most of these small MFOs are NGO-MFOs and MACS. But what may also be seen is that there are a few NGO-MFOs which are also big in size i.e. loan portfolio outstanding in excess of Rs 100 million.

**Table 19: MFOs classified by loan portfolio outstanding**

MFOs by size	No	NGO-MFOs	Mutual Benefit MFOs	Companies
Rs 0 to 5 million	491 (62%)	171	318	2
Rs 5 million to Rs 10 million	122 (16%)	39	82	1
Rs 10 million to 100 million	129 (16%)	78	42	9
Greater than Rs 100 million	44 (6%)	17	6	21
	<b>786</b>	<b>305</b>	<b>448</b>	<b>33</b>

### 6.1. Review of financial strength of MFOs

The MFO sector can be divided into three segments by MFO type and size (measured in loans portfolio outstanding):

Large MFO segment comprising about 44 MFOs with a portfolio outstanding in excess of Rs 100 million of which the top 20 companies have an average loan portfolio of Rs 850 million and a relatively high leverage (D/E ratio of 10). The large segment which is just 6% of the numbers accounts for 89% of the loan portfolio outstanding;

Medium segment with a loan portfolio outstanding between Rs 5 million and 100 million comprising about 250 NGOs and MACS with average loans of close to Rs 16 million. This segment comprising 32% of the number of MFOs accounts for just 10% of the loan portfolio outstanding;

Small segment comprising 491 mutual benefit MFOs with an average loan portfolio of Rs 0.8 million and a very low leverage of only 1. This segment comprising 62% of the number of MFOs accounts for just 1% of the loan portfolio outstanding.

**Table 20: Leverage of MFOs by size of loan portfolio outstanding**

<b>MFOs by size</b>	<b>No</b>	<b>Loans O/s (Rs million) (%)</b>	<b>Average loans per MFO (Rs million)</b>	<b>D/E</b>
Rs 0 to 5 million	491	424 (1%)	0.8	1
Rs 5 million to Rs 10 million	122	895 (2%)	7.3	1
Rs 10 million to 100 million	129	3,202 (8%)	24.8	4
Greater than Rs 100 million	44	36,896 (89%)	838.6	10
	<b>786</b>	<b>41,417</b>	<b>52.7</b>	<b>7</b>

## **6.2. Capital in MFOs**

The large MFOs mostly the NBFCs on average have a capital basis of Rs 211 million. Section 25 companies have an average capital of Rs 13 million. As a group the companies have an average capital of Rs 160 million.

Societies have a average capital of about Rs 6 million. Trusts have an average capital of Rs 3 million. As a group NGO-MFOs have an average capital of about Rs 5 million.

MACS have an average capital of Rs 3.6 million and Societies have an average capital of Rs 18 million. This could be mainly due to the fact that Societies have been in the business for a very long time and part of this capital is arising from the ploughing back of profits/retained earnings. As a group Mutual Benefit MFOs have an average capital base of close to Rs 4 million.

**Table 21: Average capital in MFOs**

Type of MFO	No	Average capital ( Rs million)	Capital to loans ratio
<b>Mutual Benefit MFOs</b>			
Cooperatives	3	18.1	12
MACS	445	3.6	64
<b>Sub Total</b>	<b>448</b>	<b>3.8</b>	<b>56</b>
<b>Companies</b>			
NBFCs	24	211	19
Section 25 Co	9	12.6	11
<b>Sub Total</b>	<b>33</b>	<b>156.9</b>	<b>18</b>
<b>NGO-MFOs</b>			
Societies	199	5.8	22
Trusts	106	3.1	7
<b>Sub Total</b>	<b>305</b>	<b>4.8</b>	<b>14</b>
<b>Totals</b>	<b>786</b>	<b>10.6</b>	<b>20</b>

**Table 22: Average capital of MFOs by size**

MFOs by size	No	Average capital ( Rs million)	Capital to loans ratio
Rs 0 to 5 million	491	1.9	216%
Rs 5 million to Rs 10 million	122	3.4	47%
Rs 10 million to 100 million	129	6.0	24%
Greater than Rs 100 million	44	141.9	17%
	<b>786</b>	<b>10.6</b>	<b>20%</b>

The above table brings out clearly the small capital base of the small MFOs. The larger MFOs have a capital base of close to Rs 142 million.

### 6.3. Capital adequacy

Capital adequacy, simply measured as capital over loans outstanding, is satisfactory in the range of 14% to 18%, with the exception of Trusts which are highly overleveraged and, hence, undercapitalized at 7%. MACS are more than comfortably capitalized with a ratio of 64% and have significant potential for leveraging.

**Table 23: Capital adequacy and leverage of capital of MFOs**

Type of MFO	No	Capital adequacy	Capital to loans Ratio
<b>Mutual Benefit MFOs</b>			
Cooperatives	3	5%	12%
MACS	445	34%	64%
<b>Sub Total</b>	<b>448</b>	<b>40%</b>	<b>56%</b>
<b>Companies</b>			
NBFCs	24	10%	19%
Section 25 Co	9	2%	11%
<b>Sub Total</b>	<b>33</b>	<b>13%</b>	<b>18%</b>
<b>NGO-MFOs</b>			
Societies	199	18%	22%
Trusts	106	4%	7%
<b>Sub Total</b>	<b>305</b>	<b>22%</b>	<b>14%</b>

**6.4. Asset quality**

Data on Non-Performing Assets (NPA) and overdues has not been collected. Loan loss provisioning is less than 1%. To some extent, this may indicate that the quality of assets of MFOs is good, or there could be under-provisioning given the lack of transparency or standards of good reporting.

**6.5. Profitability of MFOs**

MFOs increasingly rely on interest income from lending as their major source of revenue. Grants and donations are no longer important sources of income, except for small MFOs. The total cost ratios of Societies, Trusts and MACS at 34% and 25% respectively are quite high and one would wonder whether this is due to lack of economies of scale or inefficiencies or that they are not able to retain their active clients base. Companies, and Cooperatives seem to operate profitably whereas MACS and Trusts are not operationally self sufficient.

**Table 24: Profitability of MFOs**

Type of MFO	No	Share (%)	Operational self sufficiency	Operating cost ratio	Total cost ratio
<b>Mutual Benefit MFOs</b>					
Cooperatives	3	0	155%	2%	12%
MACS	445	57	68%	15%	25%
<b>Sub Total</b>	<b>448</b>	<b>57</b>			
<b>Companies</b>					
NBFCs	24	3	117%	12%	22%
Section 25 Co	9	1	107%	7%	18%
<b>Sub Total</b>	<b>33</b>	<b>4</b>			
<b>NGO-MFOs</b>					
Societies	199	25	112%	15%	34%
Trusts	106	13	94%	16%	25%
<b>Sub Total</b>	<b>305</b>	<b>39</b>			



## **7. Conclusions**

The effort to collect data from 786 MFOs in the country to understand their status is a massive exercise. There are some limitations in the data provided by MFOs as it was obtained based on a questionnaire survey. In the absence of a trained person administering the survey, there could be ambiguities with reference to understanding questions related to organizational information. The quality of the financial information was also much to be desired especially from the NGO-MFO type of institutions:

Subject to these limitations, following are conclusions:

- This exercise gives a better perspective on MFOs of different categories and regions;
- Andhra Pradesh and Tamil Nadu continue to dominate micro finance scenario. Together they account for 74% of MFOs studied here;
- Most MFOs are small. They operate in one district (67%) or one state (95%). There are only 4 MFOs that operate in more than 5 states;
- There is a fair mix of older and younger MFOs. 56% MFOs are less than 5 year old and 44% MFOs are more than 5 years old;
- MFOs registered under MACS or liberal cooperative law is dominant. 57% of MFOs belong to this category. NGO sector is still significant. NGO-MFOs (registered under Society or Trust Acts) account for 39% of MFOs. 24 NBFCs and 9 Section 25 companies are also represented in this sample;
- MFOs now offer a range of financial services. The data shows that there is an increasing trend to provide more and more services;
- About 73 MFOs have reported that they function as Business Facilitators and Business Correspondents;
- 48% MFOs have less than 10 staff. This again highlights the point that very small MFOs are represented here;
- MFOs have board members with varied experience. Close to 50% of the board members have microfinance or related experience;

### **Financial strength of MFOs:**

- *Interest on loans* is the major source of revenue for most MFOs;

*Minimum capital.* The large NBFC MFOs on average have a capital base of close to 200 million. Section 25 companies have an average equity of Rs 13 million. The medium and small MFOs are equipped with Rs 3 to 6 million on average;

*Capital adequacy.* Capital adequacy is satisfactory in the range of 14% to 16%, with the exception of Trusts which are highly overleveraged and, hence, undercapitalized at 4%. MACS are more than comfortably capitalized with a ratio of 34% and have significant potential for leveraging;

- *Asset quality.* Details on Non-Performing Assets (NPA) and overdues have not been collected. Loan loss provisioning is less than 1%. To some extent, this may indicate that the quality of assets of MFOs is good, or there could be under-provisioning given the lack of transparency or standards of good reporting;
- *Profitability.* MFOs increasingly rely on interest income from lending as their major source of revenue. Grants and donations are no longer important sources of income, except for small MFOs;

### **7.1. Recommendations**

- South India (especially Andhra Pradesh and Tamil Nadu) seem to dominate MFO sector. There is a need to accelerate efforts in other regions which have poor banking networks;
- Most MFOs are very small given their legal status which impedes them to grow by attracting capital. They are restricted to one district. NGO-MFOs are temporary vehicles for financial intermediation. If financial services have to be delivered on a professional and sustainable manner, transformation is the key. There is a need to identify potential MFOs and help them grow through transformation;
- The MACS ACT has helped to promote largest number of MFOs in a state like Andhra Pradesh. It is an ideal legal framework for community owned alternate financial institutions. There is a scope for both for advocacy and building awareness;
- MFOs are eager to provide as many services as possible to their clients. But they are not permitted to provide all services

(especially Savings) to the clients. Hence we see large number of MFOs providing only loans. It is imperative that the low income clients need the savings services as much as they need finance. The microfinance bill may address some issues. It is also important that savings services are provided by healthy and strong institutions;

- Most MFOs have board members with little knowledge of micro finance sector. NGO-MFOs have the greatest 'key man' risk and therefore it is important to promote professionalization of the management and work towards good governance and transparency;

By way of conclusion it can be said that MFOs sector is a sunrise sector with great growth potential. There are many NGO-MFOs whose legal form incapacitates them to realize their full growth potential. The potential of these NGO-MFOs can be unleashed by transformation to an optimum legal form i.e. the NBFC. This should be accompanied by appropriate capacity development of the MFO sector. It is not just about more training and skills but due attention should be paid to the development of adequate and optimum systems and practices in order to realize the orderly growth of the sector.