SIDBI

# IMEF- An Impact Assessment Study to assess the impact so far

Final Report

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ICRA Management Consulting Services Limited

# 1. EXECUTIVE SUMMARY

## ***Background of the Study***

India Microfinance Equity Fund was formed by Government of India and is managed by SIDBI. The fund, with an initial corpus of Rs 100 crore, focused on smaller (Tier I and Tier II[1] NBFC MFIs and all non NBFC MFIs), socially oriented MFIs. The corpus of the fund was increased by Rs 200 crore in Budget-FY14, taking the total corpus to Rs 300 crore. As on 28th February 2015, SIDBI has committed an amount of Rs. 138 crore to 45 MFIs. The Fund supported MFIs by extending equity or quasi-equity through OCPS or subordinated debt to Tier – II and Tier – III[2] NBFC MFIs and subordinated debt to all Non-NBFC MFIs.

SIDBI mandated ICRA Management Consulting Services Limited (IMaCS) to conduct an evaluation of the impact of IMEF funding on the MFI sector and the funded MFIs in terms of helping the MFIs achieve overall sustainability with respect to the following:

- Improving their institutional sustainability (ability to leverage, reduce reliance on subsidised funds, raising equity, improving its profitability),
- Improving their outreach and access to under-served areas (reduction in lending rate, increase in outreach to under-served areas etc.) and,
- Helping the MFIs improve their operational efficiencies and thereby reduce their cost of lending

Our sample set consisted of 42[3] MFIs which together have received sanctions of Rs 123 crore. While the analysis on composition of funding has been conducted on 42 MFIs, we could conduct the scoring and evaluation on 40 MFIs[4]. We conducted the study with a combination of primary visits and analysis of financial data and qualitative analysis. IMaCS Team visited 35 MFIs (Head Office, Branch and Centres) to assess the current state of operations at the MFIs and get a feedback from the senior management of MFIs on the impact of IMEF on their operations.

## ***Evaluation Framework***

We have based the evaluation of the impact of IMEF funding on a detailed financial and objective analysis of the performance of MFIs on a set of impact areas, parameters and sub-parameters defined through an evaluation framework. The results of the detailed financial exercise as expressed in the form of combined scores has been further substantiated and corroborated with feedback from senior management of MFIs and lenders. The impact of IMEF funding was measured under three impact areas as detailed below:

[1] Tier I NBFCs – greater than 2,50,000 borrowers; Tier II NBFCs - 50000-2,50,000 borrowers
[2] Tier III NBFCs- Less than 50,000 borrowers
[3] The initial list consisted of 44 MFIs of which 2 have since ceased to operate
[4] One MFI did not share their data and one MFI received the sanction in FY15 and hence had no financial data for evaluation

**Impact Areas of Assessment with Sub Impact Areas and key parameters**

| Impact Areas | Key | Key Parameters | Sub parameters | Weightages |
|---|---|---|---|---|
| **Impact Area 1** **Building Institutional Sustainability-** Ability of the MFIs to achieve profitable growth that makes them achieve operational and financial self sufficiency with reduced reliance on subsidised funding from donors | 50% | Parameter 1: Ability of the MFI to grow their debt and equity ratio at of more than the industry growth rates. | • Growth in Debt Funding<br>• Growth in Equity Funding<br>• Leverage ratio<br>• Growth in Managed Portfolio | 20% |
| | | Parameter 2: Ability of the MFI to reduce reliance on IMEF funding and other donor funding | • % share of IMEF funding in total sources of funds<br>• % share of IMEF Funding of total Tier 1 and Tier II Capital<br>• % share of multilateral agencies borrowings in total funds<br>• % share of bank and NBFC funding in total sources of funds<br>• % share of market borrowings in total sources of funds<br>• % share of securitisation funds to total sources of funds | 40% |
| | | Parameter 3: Ability to the MFI achieve industry level financial performance and profitability | • Cost of borrowings as a % of total borrowings<br>• Securitisation income as a % of total on balance sheet portfolio<br>• Net Interest Margin as a % of total on balance sheet portfolio<br>• Other income as a % of total on balance sheet portfolio<br>• Provisions Coverage Ratio<br>• Operating Expenses as a % of total managed portfolio<br>• Operational Self Sufficiency Ratio<br>• Financial Self Sufficiency Ratio<br>• Capital Adequacy Ratio | 40% |

| Impact Areas | Key | Key Parameters | Sub parameters | Weightages |
|---|---|---|---|---|
| | | | • Return on Assets<br>• Return on Net Worth<br>• Cash Position Indicator | |
| **Impact Area 2**<br>**Increase in outreach and responsible lending practices-** Ability of the MFI to grow and diversify to under-served customer and geographic segments and also introduce customer responsible lending practices post IMEF funding | 30% | Parameter 1: Ability of MFIs to grow and achieve growth in business at or higher than industry growth | • Growth in disbursements<br>• Growth in number of borrowers<br>• Growth in managed portfolio | 30% |
| | | Parameter 2: Ability to diversify outreach and increase presence in under-served areas | • Growth in number of branches<br>• Number of state of operations<br>• % share of branches in non south states (under-served)<br>• % share of poor customers | 30% |
| | | Parameter 3: Improvement in adoption and implementation of customer responsible lending practices | • Client Retention Rate (% of clients in the 2nd and 3rd credit cycle)<br>• Trends in Scoring on Code of Conduct Assessments<br>• Trends in MFI grading<br>• Trends in qualitative assessment of their lending operations vis-a-vis industry benchmarks<br>• Employee Turnover rates<br>• Average Lending Rate<br>• Level of Non-credit support to the customers | 40% |
| **Impact Area 3**<br>**Improvement in operational efficiencies within the MFIs** | 20% | Reduction in Cost of operations and improvement in productivity | • Operating expense per borrower<br>• % of branches computerised<br>• Advances per Credit Officer<br>• Borrowers per Credit Officer<br>• IT spend as a % of total revenue | 100% |

| Impact Areas | Key | Key Parameters | Sub parameters | Weightages |
|---|---|---|---|---|
| | | | • State of IT and MIS in the MFI<br>• Training Spend as a percentage of total spend<br>• Evaluation of level of understanding of employees of company's policies.<br>• Observed compliance from the clients on the field experience<br>• Administrative expense per borrower<br>• Operating expense per branch<br>• PAR-30 days and PAR-90 days | |

## *Methodology for calculation of scores*

Each of the **sub** parameters has been given weightage taking into consideration the objectives of IMEF funding and availability of adequate data. For each of the sub-parameter, a scoring scale (1 to 5) was developed based on industry benchmarks[5].

The weighted average score of each sub parameter calculated to get the scores for each parameter areas which are further combined to calculate the score under each impact area. The weighted average score on each impact area has been combined score to calculate a MFI's overall score on sustainability. The scoring scale for overall sustainability and each impact area has been defined from 1(low) to 5 (high). Once, the scores are calculated, the changes in the scores during the period of evaluation (pre and post funding) were compared to evaluate the impact of IMEF funding.

| Score | Level of Sustainability |
|---|---|
| <1 | Non-Sustainable |
| 1-2 | Below Average Level of Sustainability |
| 2-3 | Average Level of Sustainability |
| 3-4 | Above Average Level of Sustainability |
| 4-5 | High Level of Sustainability |

| Quantum of impact (change in score over the time horizon) | Category of impact |
|---|---|
| >0.5 | Medium to High Impact |
| >0 but less than 0.5 | Low to Medium Impact |
| 0 or less than 0 | No Impact |

## *Methodology to reach to a conclusion on the impact of IMEF funding*

**Once the scores of various impact areas and parameters were calculated, we did the comparison of these scores on two dimensions to conclude on the impact of the IMEF funding:**

- Proportion of MFIs that have demonstrated a medium to high impact of IMEF funding.
- Ability of MFIs to cross the score of the average level of sustainability at a score of 3

[5] Based on averages of top ten MFIs by total assets from 42 MFIs that have been evaluated for the study moderated based on inputs from industry reports and experts( Grameen capital, Grameen Foundation and IMaCS senior MFI experts) from

## ***Time horizon for comparison***

The impact of IMEF funding has been computed for two time horizons, a) immediate term defined as within a year of receiving sanctions and b) medium-term defined as impact measured within two years of receiving IMEF funding sanctions.

Out of a sample of 42 MFIs, 40 MFIs[6] qualified for an immediate term assessment (within 1 year of funding) and 30 MFIs qualified for medium term assessment (within 2 years of funding). The summary of our findings based on the detailed quantitative scoring exercise further corroborated with qualitative feedback from Senior Management of MFIs, lenders and other industry experts are provided in the following paragraphs:

## ***Results of the quantitative analysis***

- ***Composition of IMEF Funding***

An analysis of the composition of the funding of IMEF in terms of geography, regulatory structures of the funded MFIs and size of the funded MFIs reveal that the IMEF funds were well distributed and uniform across MFIs. The analysis reveals that:

a. Around 58.5 per cent of IMEF funds were sanctioned to 22 NBFC MFIs with the rest going to 20 Non NBFC MFIs. Average funding of NBFC MFIs was higher at Rs 3.3 crore compared to Rs 2.6 crore for Non NBFC MFIs.
b. Around 52 per cent of IMEF funds were sanctioned to 26 Tier III MFIs with 16 Tier II MFIs getting the balance 48 per cent. More than 78 per cent of the IMEF funding was sanctioned to MFIs with less than Rs 100 crore of assets at the time of sanction, around 21 per cent of the funding was sanctioned to MFIs which had an asset base of more than Rs 100 crore at the time of sanction.
c. IMEF funds were geographically well spread across 15 states, with the underserved areas of Non South geographies receiving 83 per cent of total funding. MFIs in the PSIG states received 31.5 per cent of IMEF funding.

- ***Impact on Overall Sustainability of the MFIs***

Quantitative analysis points to high and positive impact of IMEF funding towards building the overall sustainability of funded MFIs in the immediate and medium term. However, despite high impact, around 33 per cent of MFIs remained at a below average level of overall sustainability during the period of two years of receiving funding sanctions **thus** signifying the challenges in achieving sustainability by a certain proportion of MFIs even after IMEF funding.

[6] One MFI was sanctioned funds in FY15 and hence, we did not have results of any complete Financial Year to conduct the impact assessment and one MFI could not share the requisite information with our team.

**Impact of IMEF on Overall Sustainability of MFIs**

| Average Score of all MFIs | | | % of MFIs with medium to medium to high impact (change in score) | | Conclusion on IMEF Impact |
|---|---|---|---|---|---|
| Pre funding | Post funding-immediate | Post funding-medium term | **Immediate Term** | **Medium Term** | |
| 2.6 | 3.0 | 3.3 | **35%** | **77%** | **High** |

- ***Impact on Building Institutional Sustainability(Area 1)***

**Overall:** Quantitative analysis indicates a high and direct impact on the MFIs in terms of building their Institutional Sustainability post IMEF Funding. IMEF funding intervention was direct in this impact area by means of providing funds to MFI for on-lending, improve their ability to raise debt and equity, lower the cost of borrowings and achieve industry level profitability and sustainability ratios. The same has been corroborated with feedback from MFIs and lenders.

**Impact of IMEF on Institutional Sustainability of MFIs**

| Average Score of all MFIs | | | % of MFIs with medium to medium to high impact (change in score) | | Conclusion of IMEF impact |
|---|---|---|---|---|---|
| Pre funding | Post funding-immediate | Post funding-medium term | **Immediate Term** | **Medium Term** | |
| 2.6 | 3.1 | 3.3 | **45%** | **63%** | **High and Direct** |

**By regulatory status and size of MFIs**:

- NBFC MFIs demonstrated a higher improvement in the level of institutional sustainability as compared to Non NBFC MFIs post IMEF funding. The phenomena highlights that there exist a larger set of concerns (over and above the funding support) that are to be addressed for Non NBFC MFIs and the same corroborates with the feedback from MFIs and lenders.
- Tier III MFIs (irrespective of their regulatory structure)as a category has demonstrated a relatively lower impact of IMEF funding in the medium term compared to Tier II MFIs, thus signifying their struggle in achieving institutional sustainability.

**Impact of IMEF on Institutional Sustainability by regulatory structure and size of MFIs**

| Category of MFIs | % of MFI with a medium to high impact (change in score) | Average Score | Conclusion on Impact of IMEF Funding |
|---|---|---|---|
| NBFC MFIs | 77% | 3.4 | High |
| • Tier II NBFC MFIs | 75% | 3.5 | High |
| • Tier III NBFC MFIs | 80% | 3.1 | High |
| Non NBFC MFIs | 53% | 3.1 | Moderate |
| • Tier II Non NBFC MFIs | 50% | 3.3 | Moderate |
| • Tier III Non NBFC MFIs | 54% | 3.0 | Moderate |

**By key parameters:** An analysis of the scores on nine key financial ratios[7] of medium to high Impact NBFC MFIs was conducted. The impact of IMEF funding on NBFC MFIs **was high on several key parameters** that have been analysed to assess Institutional Sustainability.

a. High impact NBFC MFIs demonstrated significant/high improvement on the parameters of growth in debt funding, leverage ratio, percentage of banks and NBFC funding of total funding, Financial Self Sufficiency, Operational Self Sufficiency and Return on Assets.

b. High impact NBFC MFIs showed only a moderate improvement on parameters of growth in managed portfolio and cost of borrowings.

c. High impact NBFC MFIs showed low or no improvement on parameters of growth in equity funding.

**A similar analysis was conducted on** Non NBFC MFIs which shows medium to high impact. In contrast to NBFC MFIs, impact of IMEF funding on **Non NBFC MFIs was moderate** on several key parameters[7] that have been analysed to assess Institutional Sustainability.

a. High impact Non NBFC MFIs demonstrated moderate improvement on eight out of nine parameters of growth in debt funding, growth in managed portfolio, leverage ratio, percentage of

[7] Nine Key financial ratios considered are Growth Debt funding, Growth in Equity funding, Leverage ratio, Growth in Managed portfolio, Cost of Borrowings, % of NBFC and Bank borrowings in total borrowings, Operational Self Sufficiency ratio, Financial Self Sufficiency ratio and Return on Assets

banks and NBFC funding of total funding, cost of borrowings, Financial Self Sufficiency, Operational Self Sufficiency and Return on Assets

b. High impact Non NBFC MFIs showed low or no improvement on parameters of growth in equity funding.

## ***Impact on Increasing Outreach and lending practices (Area 2)***

- **Overall:** The results of the quantitative analysis demonstrated a high impact/improvement on increasing outreach and improving lending practices post IMEF lending. The impact of the interventions is direct in the area of increasing outreach, and is indirect and partially responsible for improvement lending practices. The same has been corroborated with feedback from MFI management. Around 30 per cent of all MFIs in the immediate term and 70 per cent of the MFIs in the medium term demonstrated a medium to high impact post IMEF funding with an aggregate score of 3.4 on this impact area

**Impact of IMEF on Outreach and lending practices**

| **Average Score of all MFIs** | | | **% of MFIs with medium to medium to high impact (change in score)** | | **Conclusion on Impact of IMEF funding** |
|---|---|---|---|---|---|
| Pre funding | Post funding-immediate | Post funding-medium term | **Immediate Term** | **Medium Term** | |
| 2.6 | 3.0 | 3.4 | **30%** | **70%** | **High and Indirect** |

- **By regulatory structure of MFIs:** NBFC MFIs showed a higher improvement in this impact area as compared to Non NBFC MFI, post IMEF Funding. The results were mixed by size of MFIs.

**Impact of IMEF on Outreach and lending practices by regulatory structure and size**

| Category of MFIs | % of MFI with a medium to high impact (change in score) in medium term | Average Score | Conclusion- Impact of IMEF Funding |
|---|---|---|---|
| NBFC MFIs | 85% | 3.5 | High |
| • Tier II NBFC MFIs | 88% | 3.3 | High |
| • Tier III NBFC MFIs | 80% | 3.8 | High |
| Non NBFC MFIs | 59% | 3.2 | Moderate |

| Category of MFIs | % of MFI with a medium to high impact (change in score) in medium term | Average Score | Conclusion- Impact of IMEF Funding |
|---|---|---|---|
| • Tier II NBFC MFIs | 25% | 2.9 | Low |
| • Tier III NBFC MFIs | 69% | 3.3 | High |

**By key parameters:**

**NBFC MFIs with a medium to high impact of IMEF Funding:** An analysis of the scores on five[8] key financial ratios showed these NBFC MFIs registered a **high improvement** (as reflected in the average scores and quantum of impact) on several key parameters that have been analysed. The improvement in their score on lending rates is moderate.

a. High impact NBFC MFIs demonstrated high improvement on four out of five parameters for growth in disbursements, growth in number of borrowers, growth in number of branches and growth in number of state of operations.

b. High impact NBFC MFIs showed no improvement in lending rate, even as the average score on this parameter was quite high at 4.4. This phenomenon implies that IMEF funding does not have an impact on the lending rates for NBFC MFIs which were already reduced in line with the RBI regulations.

**Non NBFC MFIs with a medium to high impact of IMEF Funding:** An analysis of the scores on five key financial ratios revealed that Non NBFC MFIs registered a **moderate improvement** on several key parameters. The improvement in their scores on lending rates, post IMEF funding was high.

a. High impact Non NBFC MFIs showed high improvement on the parameters of lending rate post IMEF funding (average scores increased from 4.0 to 4.8 in the medium term). Non NBFC MFIs are not under RBI regulations to reduce their lending rates. It can be concluded that IMEF funding through its lending conditions and requirements for COCA has been able to help these MFIs reduce their lending rates.

b. High impact Non NBFC MFIs demonstrated high improvement on the parameter of growth in number of state of operations (average scores increased from 2.8 to 3.3 in the medium term)

c. High impact Non NBFC MFIs demonstrated moderate improvement on the parameters of growth in number of borrowers, growth in number of branches and growth in disbursements with high quantum of change but average scores hovering at less than 3.

[8] Five key parameters analysed were Growth in Disbursements, Growth in Number of Borrowers, Growth in Number of branches, Growth in No: of States and Average Lending Rate

## *Impact on Improving Operational Efficiency (Area 3)*

**Overall**: MFIs demonstrated a moderate impact in terms of their ability to improve their operational efficiency. IMEF had no direct intervention in this impact area and no indirect mechanism (through their lending terms and conditions) to help MFIs improve their performance in this impact area. This was corroborated with qualitative feedback from MFIs that improvements in this area can be attributed to a host of other sector level factors, of which IMEF is one of the factors. MFIs reported several areas of operations, which required investments to improve efficiencies and cited lack of funds at the biggest gap hindering their ability to make these investments.

**Impact of IMEF on Improving Operational Efficiencies**

| **Average Score of all MFIs** | | | **% of MFIs with medium to medium to high impact (change in score)** | | **Conclusion- Impact of IMEF Funding** |
|---|---|---|---|---|---|
| Pre funding | Post funding-immediate | Post funding-medium term | **Immediate Term** | **Medium Term** | |
| 2.6 | 2.7 | 3.2 | **23%** | **67%** | **Moderate and Indirect** |

## *Impact by instrument of funding:*

In terms of effectiveness of instruments of funding, equity interventions were found to be marginally more impactful on improving the institutional sustainability as compared to quasi equity (OCPS/sub-debt). MFIs and lenders validated this finding as they reported that currently the gap in equity funding is larger than the gap in debt funding in the MFI sector and a key factor limiting the ability of MFIs to grow.

**Impact of IMEF Funding on Overall Sustainability by Instrument of Funding**

| Instrument of Funding | % of MFI with a medium to high impact (change in score) in medium term | Average Score | Conclusion- Impact of IMEF Funding |
|---|---|---|---|
| Equity | 79% | 3.4 | High |
| Quasi Equity/Debt | 83% | 3.2 | High, but relatively lower than equity on average score |

## *Impact by geography of operations*

The observed impact of the IMEF funding was mixed and varied across geographies depending on the presence and prevalence of regulatory structures and size of the MFIs in each region.

**Impact of IMEF Funding on Overall Sustainability by Geography of Operations**

| Geography of Funding | % of MFI with a medium to high impact (change in score) in medium term | Average Score in medium term | Conclusion- Impact of IMEF Funding |
|---|---|---|---|
| East and North East | 87% | 3.3 | High |
| North | 100% | 3.6 | High |
| South | 50% | 2.8 | Low |
| West and Central | 60% | 3.4 | Moderate |

## *Expected Outlook for the next three years for funded MFIs:*

Going forward, all MFIs, irrespective of their regulatory structure share an optimistic outlook on their expected growth in business as observed from their projected growth and financial ratio numbers. NBFC MFIs expect a significant improvement in their profitability, while Non NBFC MFIs expect some pressure on their profitability indicators.

## *Summary of the results of the quantitative exercise*

The results of the quantitative exercise has been summarised in the table below:

| Areas of impact | Conclusion on Impact of IMEF | Remarks |
|---|---|---|
| **Overall Sustainability** | High and Direct | Variations by regulatory structure and size of operations<br>- NBFC MFIs showed a higher impact (quantum of change in score) post IMEF funding and |
| **Impact Area 1: Building Institutional Sustainability** | High and Direct | |

| Areas of impact | Conclusion on Impact of IMEF | Remarks |
|---|---|---|
| **Impact Area 2: Increase in outreach and improving lending practices** | High, but somewhat indirect | higher average scores post IMEF funding compared to Non NBFC MFIs.<br>- Tier II MFIs showed a higher impact (quantum of change in score) post IMEF funding and higher average scores post IMEF funding compared to Tier III MFIs.<br>- Tier II NBFC MFIs as category showed the highest improvement, while Tier III Non NBFC as a category showed the lowest improvement. |
| **Impact Area 3: Improving operational efficiencies** | Moderate and Indirect | Results almost similar across all categories of MFIs |

***Qualitative feedback from senior management of MFIs and lenders***

Senior Management across MFIs was almost unanimous on the role and contribution of SIDBI IMEF Funds in providing an impetus to the MFI sector. Summary of their feedback on each of the three Impact Areas are as follows:

- **Building Institutional Sustainability:** IMEF has enabled the MFIs to attract more funds from other banks and institutional lenders and provided them an ability to leverage and achieve financial sustainability. SIDBI being the apex bank for micro finance lending along with its direct funding intervention, brings in significant credibility to the chosen MFIs given for funding. SIDBI conducts rigorous appraisal of the MFIs before taking their lending decisions, which provided the required comfort to the lenders on the credit profile of these MFIs and hence, their ability to achieve sustainability and service their debt obligations. Lenders confirmed that they felt more comfortable in lending to MFIs funded under IMEF, as it provided them an assurance/security that these MFIs have cleared SIDBI's threshold lending conditions and hence, can be a healthy credit case to consider. There were some variations in the feedback received from MFIs based on size, regulatory structures and geographies and same has been captured in more detail in the report.
- **Increase in outreach and improvement in lending practices:** MFIs reported an increase in their outreach to the extent of additional funds received from IMEF for on-lending coupled with an increased ability to raise more funds for on-lending. Further, IMEF with its indirect interventions

through a series of pre sanctions and pre disbursements conditions and post funding governance covenants encouraged these MFIs to work on improving their lending practices.

- **Improvement in operational efficiencies within the MFIs:** Since IMEF had no direct or indirect interventions in this area, the feedback of the MFIs was muted compared to the other two areas. Smaller MFIs reported funding availability constraining geographical expansion and introducing technological initiatives, thus restricting their ability to achieve operational efficiencies and reduced cost of operations.

- **Feedback on future relevance and ongoing role:** MFIs reiterated that SIDBI support in the form of IMEF should continue in the medium term to enable the sector stabilise and achieve a higher level of sustainability in their operations.

## Conclusions and Recommendations

The impact of IMEF funds is clearly visible, quantifiable and direct in area of building institutional sustainability, both in the immediate and medium term horizon. IMEF funding, has also led to high impact on the ability of MFIs to increase their outreach and indirectly, propelled the MFIs to improve their lending practices through their lending conditions, especially Non NBFC MFIs which reported a significant reduction in their lending rates, post IMEF funding.

Smaller MFIs (smaller Tier II MFIs and all Tier III MFIs) still face challenges arising from narrow base of high cost borrowings, low investments in technology and consequently, high cost of operations. Continued funding line from SIDBI IMEF is essential to provide the required impetus to the smaller MFIs to enable them achieve long term sustainability of operations. Hence, we recommend that SIDBI's IMEF should continue its existing funding support to the MFI sector, however, with minor modifications.

- IMEF should continue providing funds to smaller MFIs with a specific focus on small Tier II and Tier III MFIs. SIDBI should adopt targeted selection criteria based on the potential of MFIs to grow to the next tier and also the extent of need for funding support for MFIs, rather than the current blanket criteria based on Tier of MFIs linked to their number of borrowers. The MFIs can be chosen based on an assessment of their potential to grow into socially relevant and profitability organisations as reflected in the strength and experience of their senior management, past track record and assessment reports by third party agencies

- IMEF should evaluate the option of offering more comprehensive support to MFIs for smaller MFIs (Tier III) and Non NBFC MFIs that have struggled to cross the average scores on institutional sustainability and improving operational efficiencies. A few recommended components of such comprehensive support can be in the form of guarantees, additional grants for operational improvement initiatives and capacity building/consulting support to Non NBFC MFIs to enable them to transform into NBFCs.

- The fund should increase its proportion of equity funding for NBFCs MFIS with a strong track record as IMEF Funds in the form of equity for NBFC MFIs can be expected to bring in a higher impact on building sustainable operations for these MFIs.

## 2. BACKGROUND

The India Microfinance Equity Fund (IMEF) was launched with an objective to support Tier II and Tier III NBFC MFIs and all Non-NBFC MFIs, with a focus on smaller socially oriented MFIs/NBFCs operating with an objective of poverty alleviation and achieving long term sustainability of operations in underserved parts of the country. The initial fund size was Rs. 100 crore which was increased by Rs. 200 crore in the FY2014 budget and named as IMEF II. The fund is being managed by SIDBI and the fund has invested in 45 MFIs across 15 states as on 28th February, 2015.

The fund was formed in the immediate aftermath of the AP Crisis, the period during which MFIs were struggling to get funds to survive and sustain their operations that had cast a big question mark on the survival of the whole sector. In this scenario, IMEF was launched as a capital support to deserving small MFIs to enable the MFIs to leverage and raise additional debt and equity funds and thus, assist the MFIs in achieving long term sustainability.

Within this context, SIDBI wished to study the impact 'IMEF' has made on the Microfinance Sector in India till the time of conducting this evaluation exercise. Apart from studying the Impact of IMEF on the sector, SIDBI also wished to study the extent of leveraging achieved by MFIs post IMEF support, whether MFIs were able to achieve long term sustainability of operations, meeting the capital gap, expansion in under-served/un-served areas, improvement in operational efficiencies, reduction in cost of lending, improved responsible lending practices in the under-served/un-served regions of the country. In this context IMaCS was mandated by SIDBI to conduct a study to study the impact the 'IMEF' fund has had on the Microfinance Institutions in the above mentioned areas.

### 2.1 OBJECTIVE OF THE ASSIGNMENT

The scope of work on the assignment exercise included addressing the following core questions as a part of evaluation of the impact of IMEF funding on the MFI sector and the funded MFIs.

1. **Outreach and access:** Assess the multiplier effect of the intervention under IMEF by GOI through SIDBI, whether MFIs were able to raise additional debt funds for on-lending to the ultimate beneficiaries, post-IMEF assistance by SIDBI. What has been the extent of leveraging, pre and post IMEF support across different forms of corporate structure of MFIs?
2. **Long Term Sustainability of Operations:** Whether the MFIs covered under IMEF have been able to achieve long term sustainability of operations due to the IMEF support?
3. **Meeting the Capital Gap:** Whether the MFIs have been able to mobilize more capital, both, domestic and international, post-IMEF support? What is the quantum of capital so mobilized after IMEF support?
4. **Expansion in Under-served/Unserved Areas:** Whether the IMEF assistance has helped the MFIs to increase their outreach, especially in the under-served/unserved areas of the country?
5. **Improvement in Operational Efficiencies:** Whether the IMEF assistance has helped the MFIs in improving their operational efficiencies or not?

6. **Reduction in Cost of Lending:** What has been the impact of IMEF intervention on the cost of lending by the MFIs to ultimate beneficiaries? Has it helped in lowering the cost of funds for the MFIs and the same has been passed on to the ultimate beneficiaries?
7. **Improved Responsible Lending Practices:** Whether the IMEF assistance has helped in improving the observance of responsible lending practices by the MFIs?
8. **Future Need & Prospects:** Suggest the extent of future need and relevance of the IMEF for the microfinance sector for the next five years.

The overall objective of the assignment was to assess the level of contribution/impact of the IMEF funds in terms of strengthening the long term financial, operational and social sustainability of the MFIs in which the fund has invested.

## 2.2 DESCRIPTION OF THE EVALUATION FRAMEWORK

**Overall approach**

We have based the evaluation of the impact of IMEF funding on a detailed financial and objective analysis of the performance of MFIs on a set of impact areas, parameters and sub-parameters defined in an evaluation framework. The results of the detailed financial exercise as expressed in the form of combined scores has been further substantiated and corroborated with feedback from senior management of MFIs and lenders to derive the key takeaways and recommendations on the future role of IMEF funding in the MFI sector. The impact of IMEF funding was measured under three impact areas each defined by key parameters which have further been expressed as various financial and qualitative sub-parameters.

**Key Impact Areas, Parameters and Sub Parameters for evaluation**

**Table 1: Impact Areas of Assessment with Key Parameters and Sub Parameters**

| Impact Areas | Key | Key Parameters | Sub parameters | Weightages |
|---|---|---|---|---|
| **Impact Area 1 Building Institutional Sustainability-** Ability of the MFIs to achieve profitable growth that makes them achieve operational and financial self sufficiency with reduced reliance on subsidised funding | 50% | Parameter 1: Ability of the MFI to grow their debt and equity ratio at of more than the industry growth rates. | • Growth in Debt Funding<br>• Growth in Equity Funding<br>• Leverage ratio<br>• Growth in Managed Portfolio | 20% |
| | | Parameter 2: Ability of the MFI to reduce reliance on IMEF funding and other | • % share of IMEF funding in total sources of funds<br>• % share of IMEF Funding of total Tier 1 and Tier II Capital | 40% |

| Impact Areas | Key | Key Parameters | Sub parameters | Weightages |
|---|---|---|---|---|
| from donors | | donor funding | • % share of multilateral agencies borrowings in total funds<br>• % share of bank and NBFC funding in total sources of funds<br>• % share of market borrowings in total sources of funds<br>• % share of securitisation funds to total sources of funds | |
| | | Parameter 3: Ability to the MFI achieve industry level financial performance and profitability | • Cost of borrowings as a % of total borrowings<br>• Securitisation income as a % of total on balance sheet portfolio<br>• Net Interest Margin as a % of total on balance sheet portfolio<br>• Other income as a % of total on balance sheet portfolio<br>• Provisions Coverage Ratio<br>• Operating Expenses as a % of total managed portfolio<br>• Operational Self Sufficiency Ratio<br>• Financial Self Sufficiency Ratio<br>• Capital Adequacy Ratio<br>• Return on Assets<br>• Return on Net Worth<br>• Cash Position Indicator | 40% |
| **Impact Area 2**<br>**Increase in outreach and responsible lending practices-** Ability of the MFI to grow and diversify to under-served customer and geographic segments and also introduce | 30% | Parameter 1: Ability of MFIs to grow and achieve growth in business at or higher than industry growth | • Growth in disbursements<br>• Growth in number of borrowers<br>• Growth in managed portfolio | 30% |
| | | Parameter 2: Ability to diversify outreach | • Growth in number of branches<br>• Number of state of operations | 30% |

| Impact Areas | Key | Key Parameters | Sub parameters | Weightages |
|---|---|---|---|---|
| customer responsible lending practices post IMEF funding | | and increase presence in under-served areas | • % share of branches in non south states (under-served)<br>• % share of poor customers | |
| | | Parameter 3: Improvement in adoption and implementation of customer responsible lending practices | • Client Retention Rate (% of clients in the 2nd and 3rd credit cycle)<br>• Trends in Scoring on Code of Conduct Assessments<br>• Trends in MFI grading<br>• Trends in qualitative assessment of their lending operations vis-a-vis industry benchmarks<br>• Employee Turnover rates<br>• Average Lending Rate<br>• Level of Non-credit support to the customers | 40% |
| **Impact Area 3**<br>**Improvement in operational efficiencies within the MFIs** | 20% | Reduction in Cost of operations and improvement in productivity | • Operating expense per borrower<br>• % of branches computerised<br>• Advances per Credit Officer<br>• Borrowers per Credit Officer<br>• IT spend as a % of total revenue<br>• State of IT and MIS in the MFI<br>• Training Spend as a percentage of total spend<br>• Evaluation of level of understanding of employees of company's policies.<br>• Observed compliance from the clients on the field experience<br>• Administrative expense per borrower<br>• Operating expense per branch<br>• PAR-30 days and PAR-90 days | 100% |

There are a few parameters which have been given a relatively high aggregate weightage in the overall score based on their relevance criticality in terms of conducting the impact assessment of IMEF funding and also for those with sufficient data availability from a large number of MFIs. The comprehensive list of parameters along with their definitions has been provided in Appendix 2.

**Table 2: Impact Analysis Framework**

| Impact Areas | Parameters | Key Sub Parameters have been assigned a high weightage in evaluation |
|---|---|---|
| **Impact Area 1: Building Institutional Sustainability** | Ability to match or outgrow industry rates -pre and post IMEF funding | • Leverage<br>• Growth in Debt and Equity Funding |
| | Ability to reduce reliance on IMEF funding and other donor funding | • Share of NBFC and Bank Borrowings in total borrowings<br>• Share of IMEF Funds in total funds |
| | Improvement in financial performance and profitability- | • Cost of Borrowings<br>• NPA Coverage Ratio<br>• Operational Self Sufficiency<br>• Financial Self Sufficiency<br>• Return on Assets |
| **Impact Area 2: Increase in outreach and improvement in lending practices** | Ability to grow and diversify customer and geographic segments | • Growth in Disbursements, borrowers and total portfolio |
| | Increase of presence in under-served or un-served areas | • Growth in branches, state of operations, per cent share of under-served branches and poor customers |
| | Improvement in Lending Practices | • Average lending rate |
| **Impact Area 3: Improvement in operational efficiencies** | Reduction in Cost of operations and improvement in productivity | • Operating Expense per borrower and per branch<br>• Advances and Borrowers per field officer<br>• PAR 30 Days % |

**Time horizon for comparison/evaluation**

IMaCS conducted an evaluation of the impact of IMEF funding on the investee companies over two time horizons.

**Immediate Term (within a year of receiving funding):** Under this time horizon, the score of MFIs, overall and for various impact areas in pre-funding year was compared with the scores based on results of the full financial year in which the funding was sanctioned. For MFIs that received sanction in FY13, score based on FY13 financial results (first full financial year after funding) was compared with scores of FY12 to assess the immediate impact of IMEF funding on the MFIs. A total of 40 MFI out of 42 MFIs have qualified for immediate term evaluation (one MFI was sanctioned funds in FY15 and hence, we did not have results of any complete Financial Year to conduct the impact assessment and one MFI could not share the requisite information with our team).

**Medium Term (within two years of receiving funding):** Under this time horizon, the score of MFIs, both overall and for various impact areas in pre-funding year was compared with the scores based on results of the second full financial year in which the funding was sanctioned. Hence, for MFIs that received sanction in FY13, score based on FY14 financial results (first full financial year after funding) was compared with scores of FY12 to assess the medium-term impact of the funding on IMEF operations. Medium-term evaluation has been conducted for MFIs that have received sanction for funds during FY12 and FY13 and have financials for two completed financial years, FY12-FY13 and FY13-FY14, respectively after the sanction. A total of 30 MFIs out of 40 MFIs have qualified for medium term evaluation.

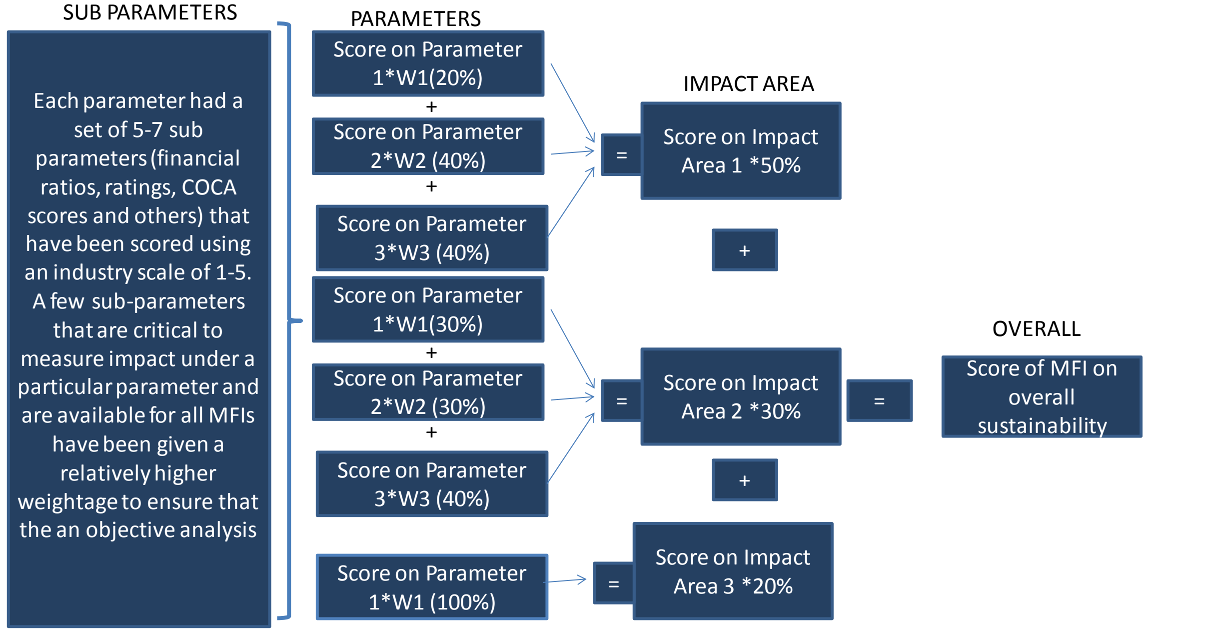
**In addition to the above two time horizons,** the future performance of MFIs over the next five years as reflected in projected financial rations was analysed. Expected performance of MFIs in long term cannot be solely attributed to IMEF and hence the scores on key ratios and business figures is expected to give a directional view on the long term outlook of MFIs that have been supported by IMEF.

**Evaluation Methodology, industry benchmarks and scoring scales**

Each Parameter has been scores on a scale of 1 to 5 based on industry benchmarks[9]. Please refer to Appendix 2 for detailed definition of each sub parameter and scoring scale. The weighted average score of each sub parameter has been calculated to get the scores for impact area. The score arrived for each impact area has further been combined using weights assigned to each impact area to calculate a combined score which reflects a MFI's overall score on sustainability. The scoring scale for overall sustainability and institutional sustainability has been defined from 1(lowest) to 5 (highest). Once, we calculated the scores of the MFIs on impact areas and parameters, the changes in the scores during the period of evaluation (immediate term and medium term were compared to evaluate the quantum of impact of IMEF funding.

[9] Based on averages of top ten MFIs by total assetsfrom 42 MFIs that have been evaluated for the study moderated based on inputs from industry reports and experts( Grameen capital, Grameen Foundation and IMaCS senior MFI experts) from

Overall Evaluation Framework: Methodology to Calculate Scores




Each score (overall, impact area wise and parameter wise) has been calculated for 3 years MFIs which qualify for a medium term evaluation and 2 years for MFIs which qualify for a short term evaluation: S0: Score for FY pre IMEF , S1: Score for 1st completed FY post IMEF and S3: Score for 2nd completed FY post IMEF

**To arrive at the conclusion on the level on impact of IMEF funding on these MFIs, overall, by impact areas and key segments of MFIs, evaluation has been conducted on two dimensions:**

- Proportion of MFIs that have demonstrated a medium to high impact of IMEF funding in the immediate and medium term.
- Ability of MFIs to cross the average level of sustainability and move towards a score of 4 or a high level of sustainability.

If more than 60-65% of MFIs could achieve a medium to high impact of IMEF funding along with an average score of more than 3, it can be concludes that IMEF funding led to high impact in the particular area.

Similarly, even if more than 60-65% of MFIs could achieve a medium to high impact of IMEF funding, but the average score remained at 3 or less than 3, it can be concluded that IMEF funding led to moderate impact in the particular area. An average score of more than 3, but less than 60% of MFIS achieving a medium to high impact of IMEF funding, would also lead to a conclusion that IMEF funding led to a moderate impact in the particular area.

If less than 60-65% of MFIs could achieve a medium to high impact of IMEF funding and the average score remained at 3 or less than 3, it can be concluded that IMEF funding led to a low impact in the particular area.

**Scoring Scale for level of sustainability**

| Score | Level of Sustainability |
|---|---|
| <1 | Non-Sustainable |
| 1-2 | Below Average Level of Sustainability |
| 2-3 | Average Level of Sustainability |
| 3-4 | Above Average Level of Sustainability |
| 4-5 | High Level of Sustainability |

**Level of impact defined by quantum of impact**

| Quantum of impact (change in score over the time horizon) | Category of impact |
|---|---|
| >0.5 | Medium to High Impact |
| >0 but less than 0.5 | Low to Medium Impact |
| 0 or less than 0 | No Impact |

## 2.3 METHODOLOGY

We executed the evaluation study in three phases as detailed below:

**Phase 1: Conducting Preparatory Work**

The field visits and primary research required a fair amount of preparatory and background work which we had initiated in Phase 1 of the assignment. As a part of this phase, we detailed out the evaluation framework in consultation with experts from Grameen Foundation India. Further, we defined the key parameters, sub parameters, factors to evaluate various sub parameters with their respective scoring definition and weightage and this has been captured in the section on Evaluation Framework. After receiving the information pertaining to the MFIs from SIDBI, we contacted the MFIs and circulated the list of documents, data templates and questionnaires to all MFIs to be covered under the study. In parallel, we also initiated a background research on the MFI sector and each of 42 MFIs to be evaluated as a part of the evaluation study.

**Phase II: Conducting desk and field research and collation of data**

Phase II involved conducting the evaluation study through a combination of desk research and secondary research. We had two parallel streams of activities being conducted in this Phase to be carried for each of the 42 MFI under evaluation. The two streams of activities were:

i. **Conducting Desk Research:**

- Receiving all important documents pertaining to MFI's operations through a continuous follow-up with MFIs.
- Compiling and studying data received and identifying data gaps
- Analysing the information received from MFIs in terms of calculating ratios and benchmarks as defined in the evaluation framework
- Identifying the areas that require further validation

ii. **Conducting Primary Research:**

- Conducting visits, meetings and telephonic discussions with key stakeholders at the MFI and industry experts to fill in data gaps from desk research, validation and discussion of the findings of desk research was done

**Phase III: Conducting analysis and providing recommendations**

In this phase, we collated the findings of the desk research and secondary research to evaluate and score the MFIs within the evaluation framework laid for conducting the exercise. This involved:

- Finalising the score of individual MFIs within the overall framework and scoring methodology
- Identifying reasons on how IMEF funding led to a substantial improvement performance and sustainability of MFIs with a high score and also delve on the issues which continued to hinder the performance/sustainability of MFIs with low score
- Giving recommendations on the relevance and ongoing objectives of IMEF funding for various categories of MFIs (as defined by their relative scoring and other characteristics)

The current report includes Sectoral level inferences in terms of assessment of the improvement in MFI's sustainability, lending practices and operational efficiencies. In this report, we have presented the results of the impact of the fund and analysed the same on key MFI characteristics such as size of MFI, geography of operations, and legal status. We have also included the score and performance of individual MFIS and key categories to MFIs to analyse the impact of IMEF funding.

### 2.3.1 SAMPLE SET

The evaluation was for all 42 MFIs that have received funding from IMEF. The 42 investee MFIs of IMEF I and II are spread across 14 states. Evaluation of all 42 MFIs with a primary visit to 35 MFIs spread across all states was carried out. At the MFI's visited, we met the senior officials at Head Office and also visited one branch and one centre meeting of each MFI to interact with the branch manager, 1-2 senior field officers and few customers. We ensured that the rest of the MFIs are adequately covered through emails, document scans and telephone calls. Multi-location teams worked in parallel to ensure that the assignment was conducted in a timely manner.

### 2.3.2 CALCULATION OF INDUSTRY BENCHMARKS

For calculation of industry benchmarks, we took the top 10 MFIs by asset from our sample set of evaluation and used the information provided by these MFIs. The set of MFIs used along with their total assets is given in section 8.1. We calculated the averages of the values reported by the MFIs against each parameter and then combined them with the expert judgement of our MFI experts[10]. The benchmarks so arrived at have been listed in appendix 8.2.

[10]Grameen Capital Foundation who partnered us in the study

### 2.3.3 LIMITATION OF THE STUDY

Given that the study required extensive data collection and interactions with multiple stakeholders, we faced the following limitations while conducting the evaluation exercise

- **Limitation:** Inadequate data availability on a few parameters especially for smaller MFIs and Non NBFC MFIs forced us to make changes in our evaluation parameters and we had to replace a few financial parameters with qualitative parameters.

  **Our approach:** We gave lower weightage to qualitative parameters as compared to quantitative parameters to reduce the possible amplification of the impact (both positive and negative) of IMEF funding in more recent years.

- **Limitation:**Data filled by MFIs in our template were inconsistent and incomplete at several places

  **Our approach**: We followed up with these MFIs to recheck, correct and fill the complete file. We also authenticated the data from external sources of information.

- **Limitation:** The evaluation has been conducted based on sanction date of funds and not disbursement of funds.

  **Our approach**: Several MFIs are yet to receive disbursements, but believe that a formal sanction from SIDBI has enabled them in raising additional funds immediately. Further, to reduce subjectivity on account of this, we have conducted the evaluation on a medium term (within two years of funding sanction) horizon as well to clearly bring out the impact on funded MFIs that have completed two financial years post receiving sanction from IMEF.

# 3. OVERVIEW OF THE MICROFINANCE SECTOR IN INDIA

## 3.1 EVOLUTION OF THE MICRO FINANCE SECTOR IN INDIA

India is a country with around 1.2 billion people and still 41 per cent[11]of the people do not have access to basic banking services. A varying ratio of bank-credit to GDP from 16 per cent in the state of Bihar to 70 per cent at an all India level, best describes the disparity in access to formal financial products and institutions in India. Banks have been making their part of contribution by lending under priority sector targets, but have been constrained by a relatively limited outreach and understanding of the rural credit market and an inability to develop a delivery model that is both, efficient and cost efficient. MFIs have increasingly been emerging as a viable alternative to provide access to financial services (mostly credit and limited saving products), to the remotest areas of the country. In its initial few years, the sector registered a phenomenal growth of more than 100per cent per annum in terms of portfolio over the period of FY04-10. The high growth rate of microfinance over the five year period was aptly supported by commercial bank funding which also led to the transformation of several MFIs to NBFC-MFIs registered with RBI. However, the industry hit a rough patch during the period 2010-12, largely as an outcome of the Andhra Pradesh crisis initiated by a state level ordinance sought at limiting the alleged exploitation and lack of connect of several MFIs with their borrowers with issues relating to overcharging of interest rates, multiple borrowing and over-indebtedness.

In the aftermath of the Andhra Pradesh microfinance ordinance issued on 15th of October, 2010 microfinance institutions across India were hit by a crisis which emerged as the most severe crisis ever faced by the industry. MFIs collections dropped below 10 per cent in Andhra Pradesh which led to banks becoming apprehensive of a rise in non-performing assets, even towards MFIs with no or marginal presence in Andhra Pradesh. This resulted in the contagion spreading to MFIs all across India. The liquidity crunch forced several MFIs to revise their business plan and cut down on the growth targets. As a result of the crisis, the financial performance of the MFIs showed signs of stress across all key parameters related to growth, portfolio at risk, margins which translated into operational and financial losses. The regulators on their part provided the support to the industry in the form of additional funding avenues and by introducing regulations focused at restoring the stability and confidence in the sector.

RBI regulations which provided more clarity and transparency to the sector, several funding and capacity building support programs by SIDBI and the joint efforts of several leading associations such as MFIN and SADHAN to improve the focus on healthier lending practices and client protection measures in the MFI sector were critical in re-stabilising the sector. Setting up of the India Microfinance Equity Fund, managed by SIDBI, with initial corpus of Rs 100 crore focusing on smaller, socially oriented MFIs with the objective of poverty alleviation and achieving long term sustainability of operations in un-served and under-served parts of the country was one of the key measures in the endeavour to support the deserving Micro Finance Institutions.

[11] Source: Bank of India Report 2014 on Financial Inclusion

FIGURE 1: EVOLUTION OF THE MICRO FINANCE SECTOR IN INDIA

| | **Phase I: 2004-2010**<br>**Rapid Growth** | **Phase II: 2010-2012**<br>**AP Microfinance crisis** | **Phase III:2013 Onwards**<br>**Consolidation and Re-emergence of Growth** |
|---|---|---|---|
| **State of MFI Industry** | • Strong growth industry concentrated in South India<br>• O/S portfolio of MFIs as on FY10 estimated at Rs 183 billion at a CAGR more than 100 % in 5 years<br>• ROA of 2.4% and ROEs of 24%, | • Growth moderated significantly with focus on consolidation of operations<br>• O/S portfolio of MFIs as on FY12 estimated at Rs 210 billion, a CAGR of 7-8% over FY10.<br>• Asset quality of AP portfolio deteriorates significantly with al round pressure on profitability | • Sector re-stabilised at a portfolio of Rs 335 billion as on FY14 with a CAGR of 28% over FY10<br>• State of Southern region stands declines to 31%, thus reflecting a growing pan India presence<br>• Profitability regained, ROA and ROE at a range of 1.94% and 9.25% for FY 2014. |
| **Key Growth Drivers** | • MFI lending included in PSL and recognised as a key financial inclusion tool<br>• Strong thrust to SHG-Bank Linkage programme<br>• Opportunity in terms of gap in access to finance for poor HHs<br>• Emergence of for profit NBFC MFIs, even as the traditional MFIs continued to thrive | • Larger MFIs showed an inclination to establish pan India presence<br>• MFIN initiated the process of self-regulation and transparency in the sector<br>• RBI introduced regulatory guidelines for MFIs with interest rates and margin caps and initiated measures to support MFIs to sustain during the period of crisis | • Larger MFIs showed an inclination to establish pan India presence<br>• MFIN initiated the process of self-regulation and transparency in the sector<br>• RBI introduced regulatory guidelines for MFIs with interest rates and margin caps and initiated measures to support MFIs to sustain during the period of crisis |
| **Area of concern** | • Largely unregulated sector and unrestrained growth<br>• Rapid mindset shift from non profit to a profit sector<br>• Small ripples of the AP crisis which hit the sector post 2008 felt<br>• Mild strain felt in the financial performance of Tier III MFIs in the year 2008 | • AP crisis unfolds in 2010 with a state level ordinance capping the interest rates and restricting recovery<br>• Concerns on lax processes and lending practices amidst high growth emerge<br>• Regulatory uncertainty mar the growth in the sector<br>• Contagion impact felt on MFIs with Non AP focus | • Lending practices and client protection processes strengthen<br>• MFIs focus on achieving operational efficiency with use of technology and centralization<br>• Growth of MFI sector becomes geographically broad based.<br>• Focus on client retention and value focussed growth |
| **State of Funding to the sector** | • Abundance of debt funds from the banks and equity funds from private equity investors | • Bank and other institutional funding to the sector declines rapidly and cost of funds rose to unsustainable levels | • Bank and other institutional funding to the sector has picked up again<br>• However, lending restricted to larger MFIs (Tier 1 and high growth Tier II) |

## 3.2 RECENT TRENDS IN THE SECTOR

Over the last three years FY12-FY15, the industry has been able to consolidate its operations and expansion plans, aided by funding support provided by Indian government, return of commercial and institution lenders to the sector, a positive regulatory environment, client protection framework/guidelines and a strong focus of MFIs to strengthen their operational efficiency and internal risk management systems. Key characteristics of MFI growth during the current phase, as a result of several industry related initiatives[12] are:

- Strong focus on adopting and implementing industry best practices for lending and client protection
- Increased participation and sharing of information with credit bureaus thus increasing the coverage of MFI borrowers
- Focus on restricting portfolio concentration risk and a move towards expanding to Non-South States in India
- Emphasis on improving operational efficiency in the MFIs, in view of meeting the reduced margin caps prescribed by RBI. Stronger focus on introducing technology based systems and centralised credit systems.
- Efforts to retain clients for longer credit cycles and offer individual loans for higher vintage clients as they grow with the MFIs
- Initiatives to diversify income from other sources such as insurance and distribution of financial products under business correspondent model
- Remerging focus on CSR and social initiatives such as health camps, financial literacy etc especially from MFIs who have been able to consolidate their operations and are now in a position to allocate a certain share of their profitability for meeting their social objectives

[12]Based on our interaction with senior management of MFIs, lenders, Grameen Capital and rating agencies and several industry reports.

### 3.3 FUTURE OUTLOOK OF THE SECTOR

Over the last three years, the Micro Finance Sector in India has regained its growth momentum and is expected to maintain a buoyant growth over the next three years. The characteristics of growth in the sector this time has been significantly different from the growth experienced in the pre-crisis era as it is built on a value based approach in contrast to the volume based growth of pre crisis era. Today, the sector endeavours to serve its target clientele in a much more regulated, transparent and sustainable manner with a balanced view on achieving its social and profitability objectives.

The RBI regulatory framework and focus on adhering to various industry benchmarks on better lending and governance practices has resulted in increased operating costs for NBFC MFIs. On the other hand, with regulatory margin caps, the MFIs need to continuously rework on streamlining their operations and achieve operational efficiency to be able to build sustainable business operations. Going forward, ability to make investments in new technology and the ability to keep borrowing costs low are the Key Success Factors for MFIs. Another prominent trend that has been noticed and is likely to continue in the near term is that commercial banks, other institutional lenders and even equity investors have largely restricted their funding to larger MFIs of more than Rs 100 crore portfolio and to a few medium-sized MFIs that are expected to transit to the league of larger MFIs in the medium term. As a result of which, the existence of smaller MFIs may be challenged and these MFIs would require continuous regulatory interventions and subsidised funding to be able to develop themselves into sustainable organisations.

## 4. KEY FINDINGS OF THE IMPACT OF IMEF FUNDING

The fund was formed with an objective to provide assistance to MFIs to improve their equity base, meet CRAR requirements, if any, prescribed by regulatory authorities and leverage the assistance for raising additional debt. The funding also seeks to assist scaling-up of operations, improving operational efficiency and building a long term commercially sustainable organisation. Further, the assistance was meant to help the MFIs develop and introduce new products and micro finance services. The fund was targeted at Tier II and Tier III NBFC MFIs and all non NBFC MFIs.

### 4.1 EVALUATION OF TARGET BENEFECIARIES AND COVERAGE OF IMEF

**In terms of the MFIs funded, funding was fairly well dispersed and uniform across MFIs of different regulatory structures (NBFCs and Non NBFCs), different geographies (15 states) and different sizes (Tier II and Tier III MFIs)**

This section summarises the key findings of the performance of IMEF in terms of its ability to select MFIs that meet the funds fundamental objectives of supporting MFIs irrespective of their regulatory structure and target smaller MFIs that have a focus on under-served geographies in terms of access to finance.

- In terms of quantum of funding, the fund reached a significant proportion of MFIs which despite their extremely small size of operations together disbursed loans which were equivalent to 15 per cent of the loans disbursed by 46 NBFC MFIs which are covered under the industry benchmarks.The set of 46 NBFC MFIs covered under industry benchmarks may include a few of the MFIs from our sample set under evaluation.

**Table 3: Comparison of key performance figures of IMEF funded MFIs with industry benchmarks**

| Key Parameters | Industry Benchmarks (46 MFIs)[13] | | IMEF funded MFIs (42 MFIs) | | IMEF Funded MFIs as a % of industry |
|---|---|---|---|---|---|
| | FY13 | FY14 | FY13 | FY14 | FY14 |
| Disbursements (Rs crore) | 23,686 | 34,968 | 3,553 | 4,887 | 14.0% |
| Gross Loan Portfolio (Rs crore) | 20,726 | 27,931 | 1,912 | 2,754 | 9.9% |
| Branches | 9,103 | 9,780 | 1,475 | 1,785 | 18.3% |
| Field Officers | 61,746 | 67,838 | 5,668 | 6,942 | 10.2% |
| No: of borrowers (in mn) | 23.3 | 28.0 | 2.5 | 3.2 | 11.5% |

- **The fund has been fairly effective in targeting MFIs irrespective of their regulatory structure as reflected in the amount disbursed and number of MFIs funded for each regulatory structure. However, average funding per non NBFC MFIs is lower than average funding per NBFC MFI.**
  - Around58.5 per cent of IMEF funds were sanctioned to 22 NBFC MFIs with the rest 41.5.per cent sanctioned to 20 Non NBFC MFIs.
  - The average funding sanctioned to NBFC MFIs was higher at Rs 3.3 crore compared to Rs 2.6 crore for Non NBFC MFIs. Lower amount of funding for Non NBFC MFIs could be attributed to smaller scale of operations of Non- NBFC MFIs and hence is justifiable.

**Table 4: Composition of IMEF funding by regulatory structure of MFIs**

| Regulatory structure | No: of funded MFIs | Amount of Funding (Rs crore) | % of total funding | Average size of funding per MFI |
|---|---|---|---|---|
| NBFC MFIs | 22 | 72 | 58.5 | 3.3 |
| Non NBFC MFIs | 18 | 51 | 41.5 | 3.6 |
| Total | 40 | 123 | 100 | 2.9 |

- **The fund sanctioned almost equal amount to Tier III and Tier II MFIs and hence has been quite effective in meeting its initial objectives of supporting smaller MFIs.**

[13]Based on Micro Meter Data, as industry publication which covers 46 NBFC MFIs. The Non NBFC MFIs funded under IMEF are not covered in industry benchmarks

- Around 52 per cent of IMEF funds were sanctioned to 26 Tier IIIMFIs (with less than 50,000 borrowers) with the rest 48per cent sanctioned to 16 Tier II MFIs (with 50,000 to up to 2,50,000 borrowers). More than 78 per cent of the funds were sanctioned to MFIs with less than Rs 100 crore of assets at the time of sanction.
- However, around 21 per cent of IMEF were sanctioned to systemically important MFIs with more than Rs 100 crore of assets but qualified for the funding based on their number of borrowers

**Table 5: Composition of IMEF funding by size and regulatory structure of MFIs**

| Size MFIs (Tier II and Tier III) at the time of sanction | Number of MFIs | Amount Sanctioned, Rs crore[14] (Figures in brackets are % of total) | Average amount sanctioned (Rs crore) |
|---|---|---|---|
| **Tier II MFIs** | **16** | **59.5 (48%)** | **3.7** |
| **NBFC MFIs** | 12 | 41.5 (34%) | 3.5 |
| **Non NBFC MFIs** | 4 | 18.0(14%) | 4.5 |
| **Tier III MFIs** | **26** | **63.5(53%)** | **2.4** |
| **NBFC MFIs** | 10 | 30.5 (25%) | 3.1 |
| **Non NBFC MFIs** | 16 | 33.0 (27%) | 2.1 |
| **Total** | **42** | **123** | **3.0** |

While more than 79per cent of the IMEF funding was sanctioned to MFIs with less than Rs 100 crore of assets at the time of sanction, around 21 per cent of the funding was sanctioned to MFIs which had an asset base of more than Rs 100 crore at the time of sanction.

**Table 6: Composition of IMEF funding by assets of MFIs at the time of sanction**

| Asset Base of MFIs at the time of funding | Number of MFIs | Amount Sanctioned, Rs crore[15] | Average amount sanctioned (Rs crore) |
|---|---|---|---|
| Less than Rs 40 crore | 24 | Rs 58.5 crore (47.6%) | 2.3 |
| Rs 40 crore to Rs 100 crore | 10 | Rs 38.5 crore (31.3%) | 3.5 |
| Greater than Rs 100 crore | 6 | Rs 26 crore (21.1%) | 4.3 |

[14] Figures in brackets represents the percentage of total
[15] Figures in brackets represents the percentage of total

- **The fund has provided support to MFIs over a wide geography with significant focus on MFIs that operate in underserved or un-served areas**
  - IMEF funds were geographically well spread with funding to MFIs across 15 states, with the underserved areas of Non South geographies receiving 83 per cent of total funding. Further, MFIs in the PSIG states received a fairly high allocation of Rs 38.75 crore or 31.5 per cent from IMEF, thus reflecting the focus of the fund on supporting MFIs that operate in the financially excluded geographies.

**Table 7: Composition of IMEF funding by Geography[16]**

| State of Operations | No: of funded MFIs | Amount Sanctioned, Rs crore[17] | Average size of funding per state |
|---|---|---|---|
| **East and North East** | **17** | **39.0 (32%)** | **2.3** |
| Assam | 2 | 6.0(5%) | 3.0 |
| Bihar | 2 | 6.0(5%) | 3.0 |
| Manipur | 2 | 2.5(2%) | 1.3 |
| Odisha | 4 | 9.75(8%) | 2.4 |
| West Bengal | 7 | 14.75(12%) | 2.1 |
| **North** | **12** | **42.5 (35%)** | **3.5** |
| Delhi | 2 | 8.0(7%) | 4.0 |
| Rajasthan | 5 | 14.5(12%) | 2.9 |
| Uttar Pradesh | 5 | 20.0(16%) | 4.0 |
| **South** | **5** | **20.5(17%)** | **4.1** |
| Karnataka | 4 | 17.5(14.5%) | 4.4 |
| Tamil Nadu | 1 | 3.0(2.5%) | 3.0 |
| **West and Central** | **8** | **21.0(16%)** | **2.6** |

[16] Head Office of the MFI
[17] Figures in brackets represents the percentage of total

| State of Operations | No: of funded MFIs | Amount Sanctioned, Rs crore[17] | Average size of funding per state |
|---|---|---|---|
| Gujarat | 4 | 9.0(7%) | 2.3 |
| Maharashtra | 3 | 9.0(7%) | 3.0 |
| Madhya Pradesh | 1 | 3.0(2%) | 3.0 |

## 4.2 ASSESSMENT OF IMPACT OF IMEF ON FUNDED IMEF

This section provides an analysis of the results of the scoring framework comprising of quantitative and qualitative parameters[18].We have also substantiated the results of the evaluation exercise with feedback received from lenders and senior management of investee MFIs.

### 4.2.1 FINDING 1: IMPACT ON OVERALL SUSTAINABILITY

**The results of quantitative analysis prove that IMEF funding can be attributed for a high and positive impact on the MFIs in terms of building their overall sustainability in a large proportion of MFIs. However, there are a few sections of MFIs continuing to face challenges in achieving overall sustainability despite receiving IMEF funding support.**

- Around 35 per cent of MFIs in immediate term and 77 per cent of MFIs in medium term showed a medium to high impact of IMEF funding on overall sustainability. Further, around 42.5 per cent of MFIs in immediate term and 67 per cent of the MFIs in medium term crossed the average level of overall sustainability with a score of 3 and above. The overall average score of MFIs on overall sustainability reached 3.3 in the medium term from 2.6 in the pre-funding period.
- However, despite the registered improvements, around 33 per cent of MFIs remained at a below average level of overall sustainability within two years of receiving funding sanctions from IMEF, thus signifying the continuing challenges in achieving sustainability, faced by these MFIs post IMEF funding.

**Table 8: MFI Scores on Overall Sustainability**

| Impact Horizon | Total No of MFIs | Overall Score on sustainability | No[19]of MFIs with an overall score of 3 or more | No[20]of MFIs with an overall score of less than 3 |
|---|---|---|---|---|
| **Pre Funding** | 40 | 2.6 | **6 (15 %)** | **34 (85%)** |
| **Post Funding** | 40 | 3.0 | **17 (42.5%)** | **23 (57.5%)** |

[18]The details of the framework is described in the approach and methodology section.
[19]Figures in brackets represents the percentage of total
[20]Figures in brackets represents the percentage of total

| Impact Horizon | Total No of MFIs | Overall Score on sustainability | No[19] of MFIs with an overall score of 3 or more | No[20] of MFIs with an overall score of less than 3 |
|---|---|---|---|---|
| **Immediate** | | | | |
| **Post Funding Mid Term** | 30 | 3.3 | **20 (67%)** | **10 (33%)** |

**Table 9: Impact of IMEF on Overall Sustainability of MFIs**

| Overall Score on Sustainability | Average Score of all MFIs | | | Impact of MFIs by quantum of Impact in short term (40 MFIs) | | | Impact of MFIs by quantum of Impact in medium-term (30 MFIs) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pre funding | Post funding-immediate | Post funding-medium term | Medium to High Impact | Low to Medium Impact | No or negative Impact | Medium to High Impact | Low to Medium Impact | No or negative Impact |
| Overall Score | 2.6 | 3.0 | 3.3 | **35%** | 55% | 10% | **77%** | 17% | 7% |

### 4.2.2 FINDING 2: IMPACT ON INSTITUTIONAL SUSTAINABILITY

**Based on the results of quantitative analysis it can be concluded that IMEF funding can be attributed for a high and direct impact on the MFIs in terms of building their Institutional Sustainability:**

- Quantitative analysis demonstrate that around 45 per cent of the MFIs in the immediate term and 63 per cent of the MFIs in the medium term demonstrated a medium to high improvement/impact in scores on institutional sustainability, post IMEF Funding. The overall average score of MFIs on overall sustainability reached 3.3 in the medium term from 2.6 in the pre-funding period.
- Despite high improvements in score on institutional sustainability for a large section of MFIs, there are a few sections of MFIs (such as Non NBFC MFIs, Tier III MFIs) that are continuing to face challenges in achieving overall sustainability despite receiving IMEF funding support.

**Table 10: Impact of IMEF Funding on Institutional Sustainability of MFIs**

| Impact Areas | Average Score of all MFIs | | | Impact of MFIs by quantum of Impact in short term (40MFIs) | | | Impact of MFIs by quantum of Impact in medium-term (30 MFIs) | | |
|---|---|---|---|---|---|---|---|---|---|
| **Score/Impact** | Pre funding | Post funding-immediate | Post funding - medium term | Medium to High Impact | Low to Medium Impact | No or negative Impact | Medium to High Impact | Low to Medium Impact | No or negative Impact |

| Impact Areas | Average Score of all MFIs | | | Impact of MFIs by quantum of Impact in short term (40MFIs) | | | Impact of MFIs by quantum of Impact in medium-term (30 MFIs) | | |
|---|---|---|---|---|---|---|---|---|---|
| Institutional Sustainability | 2.6 | 3.1 | 3.3 | **45%** | 30% | 25% | **63%** | 27% | 10% |
| Overall Score | 2.6 | 3.0 | 3.3 | **35%** | 55% | 10% | **77%** | 17% | 7% |

- IMEF funding intervention was direct in this impact area by means of providing funds to MFI for on-lending, improve their ability to raise debt and equity, lower the cost of borrowings and achieve industry level profitability and sustainability ratios. The same has been corroborated with feedback from MFIs and lenders.
- IMEF Funding was a direct intervention targeted to improve the level of institutional funding of MFIs by providing quasi or quasi equity funding to MFI. A majority of MFIs reported an increased ability to raise additional funds in the form of borrowings from banks and NBFCs, reduction in cost of borrowings, improvement in operational and financial sustainability ratios and overall improvement in Return on Assets. The impact of IMEF funding as reflected in these parameters have been discussed in more details in subsequent sections of this report.
- Even as majority of MFIs demonstrated a medium to high impact on their score on institutional sustainability in the medium term, a closer look at the numbers reveal variations by various categories of MFIs based on regulatory structure and size. The variations in results based on regulatory structure and size have been highlighted in the next section.

### 4.2.3 FINDING 3: IMPACT ON INSTITUTIONAL SUSTAINABILITYBY REGULATORY STRUCTURE AND SIZE

Based on the results of quantitative analysis, it can be concluded that NBFC MFIs demonstrated a higher improvement in their score on institutional sustainability as compared to Non NBFC MFIs post IMEF Funding. Further, Tier III MFIs (irrespective of their regulatory structure) as a category has demonstrated a relatively lower impact of IMEF funding in the medium term compared to Tier II MFIs, thus signifying their struggle in achieving and continuing to be institutionally sustainable despite funding support.

1. **Tier II NBFC MFIs:** Post IMEF funding, Tier II NBFC MFIs demonstrated a higher level of institutional sustainability both in terms of the overall score and quantum of impact when compared to all other categories of MFIs. Around 25 per cent of Tier II NBFC MFIs in the immediate term and around 75 per cent of Tier II NBFC MFIs in the medium term registered a medium to high impact of funding with average score of these MFIs reaching 3.5.
2. **Tier III NBFC MFIs:** Similarly, post IMEF funding, Tier III NBFC MFIs reflected a highimpact of IMEF funding as almost 80 per cent of all Tier III NBFC MFIs achieved a medium to high impact of funding. However the average score of these MFIs on institutional sustainability remained at around average level of 3.1. The phenomena reflects that even with the improvement in levels of institutional sustainability registered by smaller MFIs post IMEF funding, these MFIs could not cross the average

levels of institutional sustainability. Lenders confirmed that even as they lent to a few Tier III NBFC MFIs based on a comfort provided by sanction of funds received from SIDBI, but in general avoided exposure in extremely small MFIs with low growth. The concerns stemmed from the ability of these MFIs to continue growing and evolve profitably in the increasingly competitive and regulated MFI sector.

3. **Tier III Non NBFC MFIs:** Around 54 per cent of Tier III Non NBFC MFIs in the medium term and 64 per cent of MFIs in the short term reflecting a medium to high quantum of impact with an average score of 3 corresponding average level of sustainability. The results clearly demonstrate that despite IMEF support, Tier III Non NBFC MFIs have continued to struggle to achieve above average level of institutional sustainability and have not able to leverage and raise adequate funds to be able to build sustainable operations. Category of Tier III Non NBFC MFIs showed the lowest impact of funding both in terms of the average score on institutional sustainability and quantum of impact in the score on institutional sustainability post IMEF funding.

The finding gets corroborated based on a discussion with lenders, with majority of them expressing their focus and policy of lending only to Tier I and Tier II MFIs with limited lending to Tier III MFIs. Lenders also confirmed that while lending to Tier II MFIs, an equity or quasi equity funding support from SIDBI was one of the primary credit enablers. Further, some of the larger Tier II MFIs also demonstrated an ability to access a wider range of funding channels in the form of securitisation and market borrowings.

**Table 11: Impact of IMEF Funding on Institutional Sustainability of MFIs by regulatory structure and size**

| **Impact Areas** | **Average Score of all MFIs** | | | **Impact of MFIs by quantum of Impact in short term (40MFIs)** | | | **Impact of MFIs by quantum of Impact in medium-term (30 MFIs)** | | |
|---|---|---|---|---|---|---|---|---|---|
| Score/Impact -Institutional Sustainability | Pre funding | Post funding-immediate | Post funding - medium term | Medium to High Impact | Low to Medium Impact | No or negative Impact | Medium to High Impact | Low to Medium Impact | No or negative Impact |
| **All MFIs** | 2.6 | 3.1 | 3.3 | **45%** | **30%** | **25%** | **63%** | **27%** | **10%** |
| **NBFC MFIs (22)** | **2.5** | **3.1** | **3.4** | **36%** | **41%** | **23%** | **77%** | **23%** | **0%** |
| **-Tier II (12)** | 2.8 | 3.1 | 3.5 | 25% | 42% | 33% | 75% | 25% | 0% |
| **-Tier III (10)** | 2.3 | 3.0 | 3.1 | 50% | 40% | 10% | 80% | 20% | 0% |
| **Non NBFC MFIs (18)** | **2.6** | **3.1** | **3.1** | **56%** | **17%** | **28%** | **53%** | **29%** | **18%** |

| Impact Areas | Average Score of all MFIs | | | Impact of MFIs by quantum of Impact in short term (40MFIs) | | | Impact of MFIs by quantum of Impact in medium-term (30 MFIs) | | |
|---|---|---|---|---|---|---|---|---|---|
| -Tier II (4) | 2.7 | 3.2 | 3.3 | 25% | 50% | 25% | 50% | 25% | 25% |
| -Tier III (14) | 2.6 | 3.0 | 3.0 | 64% | 7% | 29% | 54% | 31% | 15% |

### 4.2.4 FINDING 4: IMPACT ON BUILDING INSTITUTIONAL SUSTAINABILITYBY KEY PARAMETERS FOR NBFC MFIS

**IMEF funding significantly improved the institutional sustainability of high impact funded NBFC MFIs by increasing their ability to raise additional debt funds, improve their leverage ratios, increase the proportion of bank and NBFC lending. All these factors together improved the performance and profitability parameters of these MFIs. However, the MFIs could achieve only a moderately high growth compared to the pre funding growth rates and demonstrated a limited ability to raise additional equity.**

In this section, we analysed the performance of NBFC MFIs which qualify for medium term evaluation (have completed two years of funding) and demonstrated a high impact on institutional sustainability post IMEF funding in the medium term. There are ten NBFC MFIs that qualify for this analysis. This category of NBFC MFIs demonstrated a significant improvement across various key parameters related to the level of institutional sustainability achieved by these MFIs

- NBFC MFIs were able to raise significantly high additional debt from a large number of banks and financial institutions and hence, improve their leverage ratios. Several NBFC MFIs confirmed that funding sanction from SIDBI IMEF helped them access higher quantum of debt from a wider set of commercial lenders.
- The scores on cost of borrowings improved only moderately but average score crossed 4, thus reflecting a scope of further reduction in cost of borrowings for these MFIs(as compared to the lowest scores in the sector) and that IMEF funding could only marginally reduce the cost of funds for high impact NBFC MFIs
- Further, the improvement in scores on account of growth in managed portfolio was moderate, even as the average score reached 4, thus reflecting the ability of MFIs to grow at reasonable rate, though still not able to match the highest industry growth rates.
- The funded NBFC MFIs, however, did not show an increased ability to raise additional equity as reflected in the average score of 2 post equity funding, which is below industry average. The same has been corroborated with industry feedback that the gap in equity funding is currently the key constraining factor for MFIs in achieve growth, profitability and sustainability. Hence, equity interventions could be a more impactful intervention compared to quasi equity/debt funding as it could enable MFIs to leverage additional equity from domestic and overseas investors in addition to debt.

**Table 12: Score on key parameters for evaluating institutional sustainability of high impact NBFC MFIs**

| **Key Parameters** | **Average Score of NBFC MFIs demonstrating High Impact in institutional sustainability the medium term (10 MFIs[21])** | | | **Conclusion on Impact of IMEF funding** | **Comments/Analysis** |
|---|---|---|---|---|---|
| | **Pre Funding** | **Post Funding Immediate** | **Post Funding mid term** | | |
| Growth in Debt Funding | 3.3 | 3.8 | 4.6 | High | NBFC MFIs were able to grow their debt funding significantly |
| Growth in Equity Funding | 2.9 | 2.9 | 2.0 | Low | No real impact was felt on their ability to raise equity |
| Leverage ratio | 2.9 | 3.1 | 3.9 | High | Leverage ratios showed improvement |
| Growth in Managed Portfolio | 3.4 | 3.7 | 4.0 | Moderate | NBFC MFIs could achieve moderately higher growth rates |
| % of bank and NBFC funding in total sources of funds | 2.5 | 3.5 | 3.5 | High | NBFC MFIs were able to access debt from multiple banks, NBFC and other financial institutions immediately after IMEF fund sanctions |
| Cost of borrowings as a percentage of total borrowings | 3.9 | 4.2 | 4.1 | Moderate | Even as the improvement in ease of access to debt funding was reasonably high, the decline in cost of funds was moderate and commensurate with the rise in quantum of funding. |
| Operational Self Sufficiency Ratio | 2.8 | 3.3 | 4.0 | High | NBFC MFIs reached an above average level of operational self sufficiency |

[21]NBFC MFIs which qualify for medium term evaluation (have completed two years of funding) and demonstrated a high impact on institutional sustainability post IMEF funding in the medium term

| Key Parameters | Average Score of NBFC MFIs demonstrating High Impact in institutional sustainability the medium term (10 MFIs[21]) | | | Conclusion on Impact of IMEF funding | Comments/Analysis |
|---|---|---|---|---|---|
| Financial Self-sufficiency Ratio | 3.1 | 3.2 | 4.0 | High | NBFC MFIs reached an above average level of financial self sufficiency |
| Returns on Assets | 2.0 | 2.7 | 3.2 | High | NBFC MFIs crossed the average level of profitability |

### 4.2.5 FINDING 5: IMPACT ON BUILDING INSTITUTIONAL SUSTAINABILITYBY KEY PARAMETERS FOR NON NBFC MFIS

**IMEF funding did lead to some improvement in the institutional sustainability of high impact funded Non NBFC MFIs, but the impact observed was lower than that on NBFC MFIs thus reflecting a larger set of concerns in addition to funding to be addressed for this category of MFIs.**

In this section, we analysed the performance of Non NBFC MFIs which qualify for medium term evaluation (have completed two years of funding) and demonstrated a high impact on institutional sustainability post IMEF funding in the medium term. There are nine NBFC MFIs that qualify for this analysis. The performance of these MFIs on key parameters have been summarised below:

- Non NBFC MFIs were able to achieve moderately higher quantum of debt from commercial lenders compared to pre funding era. Non NBFC MFIs were able to access debt funds from commercial lenders as reflected in their scores on growth in debt funding and per cent share of banks and NBFCs in total funding. However, the scores post funding remain below the industry averages thus reflecting their continued concerns related to access to funding and an ability to achieve higher growth and sustainability in their operations. As confirmed, lenders continue to adopt a more cautious approach while lending to Non NBFC MFIs as compared to NBFC MFIs.
- Non NBFC MFIs were able to achieve moderately higher growth in their portfolio compared to pre funding period. However, the score on growth rates at 2.9 remained lower than average industry growth rates at 3, thus reflecting a challenge in growing their operations.
- Non NBFC MFIs demonstrated cost of borrowings comparable to the highest industry benchmarks and also registered a strong change in scores post IMEF funding. The reason for this phenomenon has been that share of subsidized funding from multilateral agencies and IMEF funding has been higher compared to that of NBFC MFIs.
- As a result of reduced cost of borrowings and increased ability to leverage debt, the MFIs could achieve moderate improvement in their OSS and FSS ratios, thus signifying their improved ability to be sustainable.

- However, even with reduced cost of borrowings, the profitability of these MFIs did not show any improvement post IMEF funding in the medium term

**Table 13: Score on Key Parameters for evaluating Institutional Sustainability of High Impact Non NBFC MFIs**

| Key Parameters | Average Score of Non NBFC MFIs demonstrating High Impact on institutional sustainability in the medium term ( 9 MFIs) | | | Conclusion on Impact of IMEF Funding | Comments/Analysis |
|---|---|---|---|---|---|
| | Pre Funding | Post Funding Immediate | Post Funding mid term | | |
| **Growth in Debt Funding** | 1.0 | 2.9 | 2.4 | Moderate | Non NBFC MFIs were able to access more debt though the average score remained at below industry average |
| **Growth in Managed Portfolio** | 2.2 | 2.9 | 2.9 | Moderate | Non NBFC MFIs could achieve moderate improvement in their growth rates (remain below industry levels) |
| **% of bank and NBFC funding in total sources of funds** | 3.1 | 3.1 | 3.6 | Moderate | Non NBFC MFIs showed a moderate improvement in terms of access to debt from commercial lenders |
| **Cost of borrowings as a percentage of total borrowings** | 4.2 | 4.9 | 5.0 | High | Cost of borrowings of Non NBFC MFIs commensurate with the industry benchmarks. Several MFIs have received funds from multilateral agencies. IMEF funds were also relatively low cost. |
| **Operational Self Sufficiency Ratio** | 3.9 | 3.9 | 4.3 | Moderate | Demonstrated an above average operational self sufficiency ratio owing to their small operations with marginal growth and limited cost base (low investments in technology and operations) |
| **Financial Self-sufficiency Ratio** | 4.2 | 3.8 | 4.4 | Moderate | Demonstrated an above average financial self sufficiency ratio owing to their small operations with marginal growth and limited cost base (low investments in technology and operations) |

| Key Parameters | Average Score of Non NBFC MFIs demonstrating High Impact on institutional sustainability in the medium term ( 9 MFIs) | | | Conclusion on Impact of IMEF Funding | Comments/Analysis |
|---|---|---|---|---|---|
| | **Pre Funding** | **Post Funding Immediate** | **Post Funding mid term** | | |
| **Returns on Assets** | 3.8 | 4.0 | 3.7 | Low | Operated at reasonably high RoAs due to extremely high leverage (With no equity base) and their small operations with marginal growth and limited cost base (low investments in technology and operations |

### 4.2.6 FINDING 6: IMPACT ON OUTREACH AND LENDING PRACTICES

**Funded MFIs demonstrated a fairly high impact (both in terms of quantum of change and average score) on increasing outreach and access and improving lending as an outcome of additional funds through IMEF. However, improvement under this impact area can be termed as somewhat indirect and partial outcome of IMEF as even though interventions are direct in the area of increasing outreach, they were indirect and partially responsible for improvement in lending practices.**

- As per the results of the evaluation exercise, around 70per cent of the funded MFIs in the medium-term and 30 per cent of the funded MFIs in the immediate term showed a medium to high improvement in scores in their ability to increase outreach and improve their lending practices. Further the average score of all MFIs on this impact area reached 3.4. Hence the impact of IMEF funding can be termed as high.
- IMEF intervention in this impact area has been partially direct to the extent of providing funds to on-lend to MFIs operating in under-served areas and also enabled them to access additional debt to grow and lend.
- Further, the fund intervened indirectly to improve the lending practices at these MFIs by prescribing pre-sanction, post disbursement conditions and post funding governance. The same was validated by feedback received from the management of MFIs. They opined that improvement in lending practices can be attributed to a host of other factors including RBI regulation, efforts of self-regulatory agencies and series of internal initiatives by the MFIs, post AP crisis. Nonetheless, they acknowledge that the guidance by SIDBI IMEF has also contributed to improving their lending practices and also reduce their lending rates, particularly for Non NBFC MFIs that are not under RBI regulations for margin caps.

- Hence, while the demonstrated impact in this area is high, we would rate it as**"High but Somewhat Indirect"** in terms of impact of IMEF.

**Table 14: Impact of IMEF Funding on Increasing Outreach and Improving Lending Practices of MFIs**

| Impact Areas | Average Score of all MFIs | | | Impact of MFIs by quantum of Impact in short term (40MFIs) | | | Impact of MFIs by quantum of Impact in medium-term (30 MFIs) | | |
|---|---|---|---|---|---|---|---|---|---|
| Score/Impact | Pre funding | Post funding-immediate | Post funding-medium term | Medium to High Impact | Low to Medium Impact | No or negative Impact | Medium to High Impact | Low to Medium Impact | No or negative Impact |
| Increasing outreach and improving lending practices | 2.6 | 3.0 | 3.4 | **30%** | 45% | 25% | **70%** | 23% | 7% |
| Overall Score | 2.6 | 3.0 | 3.3 | **35%** | 55% | 10% | **77%** | 17% | 7% |

### 4.2.7 FINDING7: IMPACT ON OUTREACH AND LENDING PRACTICESBY REGULATORY STRUCTURE AND SIZE OF MFIS

**NBFCs MFIs demonstrated the highest impact in the post IMEF funding in terms of increasing their outreach and improving their lending practices ad compared to Non NBFC MFIs also demonstrated an uniform improvement, though the quantum of impact is much less pronounced than that of NBFC MFIs.**

- At an aggregate level, NBFC MFIs reached a score of 3.5 in the medium term and around 32 per cent of NBFC MFIs in the immediate term post funding and 85 per cent of the NBFC MFIs in medium term demonstrated a medium to high impact. This is in line with the overall industry trends of strengthening lending practices driven by a host of factors including RBI regulations, SIDBI's interventions, efforts of self-regulatory agencies and further, an internal drive amongst the MFIs to avoid the emergence of crisis similar to the Andhra Pradesh crisis. Hence, IMEF was important, yet one of the other several factors that can be credited to the positive changes in this area.
- On a comparable basis, the improvement in the scores of Non NBFC MFIs was muted in this area. Around 28 per cent of non NBFC MFIs in the immediate term and only 59 per cent of these MFIs in the medium term demonstrated a medium to high impact with the average score of these MFIs reaching only 3.2 post IMEF funding in the medium term. However, there are certain areas where IMEF funding did lead to significant improvements for Non NBFC MFIs and the same has been discussed in the subsequent sections.

**Table 15: Impact of IMEF Funding on Increasing Outreach and Improving Lending Practices of MFIs by regulatory structure and size**

| Impact Areas | Average Score of all MFIs | | | Impact of MFIs by quantum of Impact in short term (40MFIs) | | | Impact of MFIs by quantum of Impact in medium-term (30 MFIs) | | |
|---|---|---|---|---|---|---|---|---|---|
| **Score/Impact-Outreach and lending practices** | Pre funding | Post funding-immediate | Post funding-medium term | Medium to High Impact | Low to Medium Impact | No or negative Impact | Medium to High Impact | Low to Medium Impact | No or negative Impact |
| All MFIs | 2.6 | 3.0 | 3.4 | **30%** | **45%** | **25%** | **70%** | **23%** | **7%** |
| **NBFC MFIs (22)** | **2.8** | **3.2** | **3.5** | **32%** | **45%** | **23%** | **85%** | **8%** | **7%** |
| **-Tier II (12)** | 2.7 | 2.9 | 3.3 | 25% | 42% | 23% | 88% | 0% | 13% |
| **-Tier III (10)** | 2.8 | 3.4 | 3.8 | 40% | 50% | 10% | 80% | 20% | 0% |
| **Non NBFC MFIs (18)** | **2.5** | **2.7** | **3.2** | **28%** | **44%** | **28%** | **59%** | **35%** | **6%** |
| **-Tier II (4)** | 2.4 | 2.6 | 2.9 | 25% | 50% | 25% | 25% | 75% | 0% |
| **-Tier III (14)** | 2.5 | 2.8 | 3.3 | 29% | 43% | 29% | 69% | 23% | 8% |

### 4.2.8 FINDING 8: IMPACT ON OUTREACH AND LENDING PRACTICESBY KEY PARAMETERS

**An analysis of the high impact NBFC MFIs of five key financial parameters indicate that NBFC MFIs registered a high improvement( as reflected in their scores and quantum of impact) on four parameters except lending rates, where the improvement has been medium/moderate. In contrast high impact non NBFC MFIs registered a high improvement on two parameters of reduction in lending rates and diversification to new states and only moderate improvement on other three parameters.**

An analysis of the performance of NBFC that qualify for medium term evaluation (have completed two years of funding) and demonstrated a medium to high impact in increasing outreach improving lending practices post IMEF funding in the medium term. Here is a summary of key findings based on an assessment 11 NBFC MFIs that qualify for this assessment:

- High Impact funded NBFC MFIs demonstrated a high impact in four out of five parameters of growth in disbursements, growth in number of borrowers, growth in number of branches. A part of this performance can be attributed to additional funds provided by IMEF to on-lend coupled with their increased access/ an ability to leverage additional debt funds from commercial lenders post IMEF.

- However, high impact NBFC MFIs showed no improvement on parameters of lending rate, even as the average score on this parameter was quite high at 4.4. This phenomenon clearly proves that lending rates for NBFC MFIs were already reduced due to RBI regulations and hence, cannot be attributable to IMEF funding. IMEF could be credited indirectly for this impact, in terms of being one of the key enablers to help NBFC MFIs reduce their average lending rate by helping them reduce their cost of borrowings (as discussed and analysed in the Section 4.2.4).

**Table 16: Score on Key Parameters for evaluating impact on Outreach and Lending Practices of High Impact NBFC MFIs**

| Key Parameters | Average Score of NBFC MFIs demonstrating High Impact in improving outreach and lending practices the medium term (11 MFIs) | | | Conclusion on Impact of IMEF Funding |
|---|---|---|---|---|
| | Pre Funding | Post Funding Immediate | Post Funding mid term | |
| Growth in disbursements | 2.8 | 3.0 | 4.1 | High |
| Growth in number of borrowers | 2.4 | 3.6 | 3.5 | High |
| Growth in number of branches | 2.1 | 1.5 | 3.5 | High |
| Growth in no: of state of operations | 3.0 | 3.1 | 3.5 | Moderate |
| Average lending rate | 4.3 | 4.3 | 4.4 | Moderate |

An analysis of the performance of Non NBFCs that qualify for medium term evaluation (have completed two years of funding) and demonstrated a medium to high impact in increasing outreach improving lending practices post IMEF funding in the medium term. Here is a summary of key findings based on an assessment of 9 High Impact Non NBFC MFIs that qualify for this assessment:

- High Impact funded Non NBFC MFIs demonstrated a substantial reduction in average lending rates following IMEF funding with average scores increasing from 4 to 4.8 in the medium term post IMEF funding. This could be attributed to IMEF in two ways, 1) By helping the MFIs access debt and reduce their cost of borrowings and 2) Through its lending conditions that require the funded MFIs get their COCAs and social ratings conducted. These assessment reports such as COCA and Social Ratings tend to allocate a higher score to MFIs that are able to reduce their lending rates down to the industry rates and hence, indirectly provide an impetus to the Non NBFC MFIs to reduce their lending rates without mandatorily required to do so.

- High impact Non NBFC MFIs demonstrated high improvement on the parameter of growth in number of state of operations (average scores increased from 2.8 to 3.3 in the medium term)
- High impact Non NBFC MFIs demonstrated moderate improvement on the parameters of growth in number of borrowers, growth in number of branches and growth in disbursements with high quantum of change but average scores hovering at around 3

**Table 17: Score on Key Parameters for evaluating impact on Outreach and Lending Practices of High Impact Non NBFC MFIs**

| Key Parameters | Average Score of Non NBFC MFIs demonstrating High Impact in improving outreach and lending practices(9 MFIs) | | | Conclusion on Impact of IMEF funding |
|---|---|---|---|---|
| | Pre Funding | Post Funding Immediate | Post Funding mid term | |
| Growth in disbursements | 1.6 | 2.0 | 2.9 | Moderate |
| Growth in number of borrowers | 2.1 | 2.3 | 3.2 | Moderate |
| Growth in number of branches | 1.3 | 1.8 | 2.8 | Moderate |
| Number of state of operations | 2.8 | 2.9 | 3.3 | High |
| Average lending rate | 4.0 | 4.4 | 4.8 | High |

### 4.2.9 FINDING 9: IMPACT ON OPERATIONAL EFFICIENCY

**The funded MFIs demonstrated a medium impact in terms of their ability to improve their operational efficiency. However, IMEF had no direct intervention in this impact area and hence, we conclude that its funding impact was medium and indirect in this area.**

- Around23 per cent of all MFIs in the immediate term and 67 per cent of all MFIs in the medium term registered a medium to high impact of IMEF funding. Further, average score of MFIs on operational efficienciesremained at3.2, which is relatively lower than the average score of 3.3 for MFIs on overall sustainability medium term post IMEF funding. Hence, the impact of IMEF in impact area can be termed as moderate.
- This was corroborated with qualitative feedback from MFIs that any improvements in this area could be attributed to a host of other sectoral level factors, of which IMEF could be just one of the factors. IMEF intervention in this impact area has been largely indirect and small as the funds were provided to the MFIs to on-lend and not for any investment in internal operations. Further, unlike impact area 2 of increasing outreach and improving lending practices, there was no mechanism/lending conditions

attached to state of technology and operations at the MFI. The same gets validated by feedback received from MFIs, as they reiterated that any cost efficiency and productivity related measures are attributable to a host of factors other than SIDBI which includes margin cap prescribed by RBI and a series of self-driven internal initiatives by the MFIs.

- Further, as per our discussion, many of the smaller MFIs with less than Rs 60-70 crore of assets were unable to make adequate investments in their technology infrastructure due to restricted funding options and expressed a requirement of additional capacity building support from SIDBI in addition to providing funds for on lending.

Hence, we opine that the impact has been **"Medium and indirect"** in terms of impact of IMEF towards improvement in operational efficiencies in the MFIs.

**Table 18: Impact of IMEF Funding on Improving Operational Efficiencies of MFIs**

| **Impact Areas** | **Average Score of all MFIs** | | | **Impact of MFIs by quantum of Impact in short term (40 MFIs)** | | | **Impact of MFIs by quantum of Impact in medium-term (30 MFIs)** | | |
|---|---|---|---|---|---|---|---|---|---|
| **Score/Impact** | Pre funding | Post funding-immediate | Post funding - medium term | Medium to High Impact | Low to Medium Impact | No or negative Impact | Medium to High Impact | Low to Medium Impact | No or negative Impact |
| Improvement in operational efficiencies | 2.6 | 2.7 | 3.2 | **23%** | 50% | 27% | **67%** | 20% | 13% |
| **Overall** | 2.6 | 3.0 | 3.3 | **35%** | 55% | 10% | **77%** | 17% | 7% |

### 4.2.10 FINDING 10: IMPACT ON OPERATIONAL EFFICIENCY BY REGULATORY STRUCTURE AND SIZE OF MFIS

**All categories of MFIs, irrespective of their regulatory structure and size fall short of performance in this impact area compared to other impact areas and reflected a significant scope for improvement in terms of achieving higher operational efficiencies**

Almost one third of all categories of MFIs showed a low to medium impact post IMEF funding, thus demonstrating scope of further improvement.

- Around 63 per cent of Tier II NBFC MFIs registered a medium to high impact in the medium term and reached an average score of 3.3 in this impact area. Compared to this, even as 75 per cent of Tier II Non NBFCs registered a medium to high impact in the medium term, they could reach an average score of only 3.1 in the medium term

- Further, around 60 per cent of Tier III NBFC MFIs registered a medium to high impact in the medium term and reached an average score of 3.1 in this impact area. Compared to this, around 69 per cent of Tier III Non NBFCs registered a medium to high impact in the medium term and reached an average score of 3.2 in the medium term, post funding.
- In our discussions, all Tier II and Tier III NBFC MFIs expressed a need to put in more investments and resources in technology, MIS and centralised credit operations. As a result of the margin gaps prescribed by RBI; reducing cost of operations and increasing productivity has emerged as one of the critical factors to achieve and maintain sustainable operations. Even as MFIs have started a few IT initiatives such as introduction of hand held devices or centralised credit operations, they felt that lack of adequate funds hampered their ability to bring the requisite improvements, both in terms of quality and scale.
- Several MFIs reiterated that IMEF funding has no direct or indirect intervention in this impact area and requested for additional grants based support coupled/or independent from IMEF to be able to build operations that can truly be self-sustainable in the long run.

**Table 19: Impact of IMEF Funding on Operational Efficiencies of MFIs by regulatory structure and size**

| **Impact Areas** | **Average Score of all MFIs** | | | **Impact of MFIs by quantum of Impact in short term (40MFIs)** | | | **Impact of MFIs by quantum of Impact in medium-term (30 MFIs)** | | |
|---|---|---|---|---|---|---|---|---|---|
| Score/Impact-Improvement in operational efficiencies | Pre funding | Post funding-immediate | Post funding-medium term | Medium to High Impact | Low to Medium Impact | No or negative Impact | Medium to High Impact | Low to Medium Impact | No or negative Impact |
| All MFIs | 2.6 | 2.7 | 3.2 | **23%** | 50% | 27% | **67%** | 20% | 13% |
| **NBFC MFIs (22)** | **2.6** | **2.9** | **3.2** | 29% | 52% | 19% | 62% | 23% | 15% |
| **-Tier II (12)** | 2.7 | 3.0 | 3.3 | 25% | 42% | 25% | 63% | 13% | 25% |
| **-Tier III (10)** | 2.6 | 2.9 | 3.1 | 30% | 60% | 10% | 60% | 40% | 0% |
| **Non NBFC MFIs (18)** | **2.5** | **2.5** | **3.1** | 17% | 50% | 33% | 71% | 18% | 12% |
| **-Tier II* (4)** | 2.0 | 2.2 | 2.9 | 25% | 50% | 25% | 75% | 25% | 0% |
| **-Tier III (14)** | 2.6 | 2.6 | 3.2 | 14% | 50% | 36% | 69% | 15% | 15% |

*The scores of Tier II Non NBFC are more subdued compared to others due to extremely low scores of a single MFI. Excluding that one MFI, results will largely be at par with other categories of MFIs

### 4.2.11 FINDING 11: IMPACT ON SUSTAINABILITY BY INSTRUMENT OF FUNDING

**Equity interventions demonstrated a little higher impact on improving the institutional sustainability of the funder MFIs as compared to non equity interventions.**

- Around 22 per cent of MFIs which received equity in the immediate term and around 67 per cent of equity funded MFIs demonstrated a medium to high level of quantum of impact. In comparison, around 35 per cent of quasi equity funded MFIs in the immediate term and around 79 per cent of quasi equity funded MFIs in the medium term demonstrated a medium to high level of impact.
- However, MFIs which received equity demonstrated a higher average score on overall sustainability of 3.4 in the medium-term as compared to quasi equity funded MFIs at 3.2. The scores on improving institutional sustainability (Impact Area 1) as segment by instrument of funding reveal somewhat similar results.
- The finding is in line with the feedback received from senior management of MFIs and lenders who felt that equity infusions can be a stronger intervention for MFIs compared to debt funding as they believe that the quantum of gap in availability of domestic equity in MFIs is higher than the gap in availability of debt. Further, they felt that equity funding enables them to both leverage and raise additional equity as compared to quasi equity which is often treated as debt (due to uncertainty of their conversion to equity) by lenders in their credit analysis.

**Table 20: Impact of IMEF Funding by Instrument of Funding**

| **Impact Areas** | **Average Score of all MFIs** | | | **Impact of MFIs by quantum of Impact in short term (40 MFIs)** | | | | **Impact of MFIs by quantum of Impact in medium-term (30 MFIs)** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pre funding | Post funding-immediate | Post funding-medium term | Number of MFIs funded | Medium to High Impact | Low to Medium Impact | No or negative Impact | Number of MFIs funded | Medium to High Impact | Low to Medium Impact | No or negative Impact |
| **Overall Sustainability** | | | | | | | | | | | |
| Equity | 2.5 | 2.9 | 3.4 | 9 | 22% | 67% | 11% | 6 | 83% | 17% | 0% |
| Quasi Equity (OCPS/Debt) | 2.6 | 3.0 | 3.2 | 31 | 35% | 55% | 10% | 24 | 79% | 13% | 8% |
| **Impact Area 1: Building Institutional Sustainability** | | | | | | | | | | | |
| Equity | 2.5 | 3.0 | 3.4 | 9 | 22% | 56% | 22% | 6 | 67% | 33% | 0% |
| Quasi Equity (OCPS/Debt) | 2.6 | 3.1 | 3.2 | 31 | 52% | 23% | 26% | 24 | 63% | 25% | 13% |

### 4.2.12 FINDING 12: IMPACT ON SUSTAINABILITY BY GEOGRAPHY OF OPERATIONS

**The results of the IMEF funding was mixed and varied across geographies depending on the prevalence of regulatory structures and size of the MFIs in each region**

A closer look at the results of impact analysis on improving institutional sustainability - Impact Area 1 (given that this area got a direct intervention from IMEF) shows that:

- The impact of IMEF funding was found to be the most impressive in North based MFIs with83 per cent of MFIs in the region demonstrating a medium to high level impact of funding and the MFIs achieving an above average score of 3.3 on institutional sustainability. The funded MFIs include 6 NBFC MFIs (out of 8 MFIs) and the largest Non NBFC MFI. The composition explains the positive performance in the sector. North based MFIs were found to be fairly appreciative of the contribution of IMEF funding in helping them improve sustainability of their operations.

- The impact of IMEF funding was found to be the reasonable in West based MFIs with 60 per cent of MFIs in the region demonstrating a medium to high level impact of funding and the MFIs achieving an above average score of 3.4 on institutional sustainability. The reason for this performance can be attributed to the fact that 7 out of 10 MFIs in the region are NBFCs.
- MFIs in Eastern and North Eastern regions demonstrated the a lower impact of funding on institutional sustainability with around 59 per cent of the MFIs in the immediate term and 53 per cent of the MFIs in the medium term registering a medium to high impact post IMEF Funding. The reason for this performance can be attributed to the predominant regulatory structure of MFIs in the region, where 11 of the 17 funded MFIs (Around 65 per cent of total) are non NBFCs. Similarly around 11 of the 17 funded MFIs are smaller Tier III MFIs. Hence, the results of Non NBFC and smaller Tier III NBFCs as discussed in the previous sections got reflected in the scores and quantum of impact of the Eastern region. The finding was further validated during our discussions with MFIs in this region, where MFIs expressed concerns on difficulty in getting funding from banks and NBFCs due to their small and geographically concentrated operations, reluctance of banks and NBFCs to lend to Non NBFC MFIs and an adverse past track record of default rates in the region.
- Only five South based MFIs received funding and the MFIs could barely reach the average score of institutional sustainability. MFIs in South were unable to grow their portfolio, branches and borrowers despite IMEF support even though majority of them could achieve operational and financial self-sustainability ratios of more than 100 per cent. There is clearly a continuing aversion on the part of lenders to fund the growth of smaller South based MFIs. Further, South based MFIs clearly felt that despite belonging to well-developed Micro Finance market, they too like their counterparts in other regions require on-going SIDBI support to develop into long term financially sustainable organisations.

**Table 21: Impact of IMEF Funding by Geography of Operations**

| **Impact Areas** | **Average Score of all MFIs** | | | | **Impact of MFIs by quantum of Impact in short term (40 MFIs)** | | | | **Impact of MFIs by quantum of Impact in medium-term (3MFIs)** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Overall Sustainability** | | | | | | | | | | | |
| Overall | Pre funding | Post funding-immediate | Post funding-medium term | Number of MFIs funded | Medium to High Impact | Low to Medium Impact | No or negative Impact | Number of MFIs funded | Medium to High Impact | Low to Medium Impact | No or negative Impact |
| **East and North East** | 2.5 | 2.9 | 3.3 | 17 | 35% | 53% | 12% | 15 | 87% | 7% | 6% |
| **North** | 2.8 | 3.4 | 3.6 | 8 | 50% | 50% | 0% | 6 | 100% | 0% | 0% |
| **South** | 2.3 | 2.4 | 2.8 | 5 | 0% | 80% | 20% | 4 | 50% | 50% | 0% |
| **West and Central** | 2.8 | 3.1 | 3.4 | 10 | 30% | 60% | 10% | 5 | 60% | 20% | 20% |
| **Building Institutional Sustainability** | | | | | | | | | | | |
| **East and North East** | 2.5 | 3.1 | 3.2 | 17 | 59% | 24% | 18% | 15 | 53% | 33% | 13% |
| **North** | 2.8 | 3.4 | 3.3 | 8 | 50% | 50% | 0% | 6 | 83% | 17% | 0% |
| **South** | 2.3 | 2.4 | 3.0 | 5 | 20% | 20% | 60% | 4 | 75% | 25% | 0% |
| **West and Central** | 2.7 | 3.0 | 3.4 | 10 | 30% | 30% | 40% | 5 | 60% | 20% | 20% |

### 4.2.13 FINDING 13: FUTURE OUTLOOK ON THE PERFORMANCE OF FUNDED MFIS

**Going forward, All MFIs, irrespective of their regulatory structure share an optimistic outlook on their expected growth in business. However, while NBFC MFIs expect a significant improvement in their profitability, Non NBFC MFIs expect some pressure on their profitability indicators.**

We received financial projections on a limited set of parameters for 24 MFIs. We compared the average score of MFIs as achieved in FY14 with that of the expected outlook in FY17. While clearly, both set of MFIs are optimistic on their future outlook, Non NBFC MFIs expect slightly lower growth rates as compared to NBFC MFIs and some stress on their profitability and operational self sufficiency ratios. A few Non NBFC MFIs plan to or have initiated the process of transforming into NBFC MFIs.

**Table 22: Performance Outlook of Funded MFIs**

| **Parameters** | **NBFC MFIs (15) Average Score** | | **Direction of change** | **Non NBFC MFIs (9) Average Score** | | **Direction of change** |
|---|---|---|---|---|---|---|
| | FY14 | FY17 | ↑ ↓ ↔ | FY14 | FY17 | ↑ ↓ ↔ |
| Growth in Disbursements | 3.9 | 4.6 | ↑ | 2.9 | 3.8 | ↑ |
| Growth in number of borrowers | 3.5 | 4.9 | ↑ | 2.9 | 4.6 | ↑ |
| Growth in number of branches | 3.6 | 4.4 | ↑ | 2.9 | 4.3 | ↑ |
| No: of state of operations | 3.6 | 4.0 | ↑ | 2.4 | 2.4 | ↔ |
| Advances per field officer | 3.6 | 3.4 | ↓ | 3.1 | 3.1 | ↔ |
| Borrowers per field officer | 3.5 | 3.3 | ↓ | 3.8 | 4.0 | ↑ |
| Return on Assets | 3.3 | 4.7 | ↑ | 4.7 | 4.6 | ↔ |
| Return on Equity | 1.9 | 4.0 | ↑ | 4.6 | 4.0 | ↓ |
| Operational Self Sufficiency Ratio | 4.0 | 4.5 | ↑ | 4.3 | 4.1 | ↓ |

## 4.3 FEEDBACK FROM THE MFIS AND LENDERS ON CONTRIBUTION OF IMEF FUNDING

As a part of study, we interacted with the senior management of all MFIs and leading lenders to the MFI sector (Please refer to the list of lenders interacted with in section 8.3) for their views on the impact of SIDBI led IMEF Funding in terms of improving the overall sustainability of the funded MFIs. We also took a feedback from the senior management and lenders on the relevance of IMEF Funding in the near to medium term and any possible adjustments that can be made to the fund objectives to improve its efficacy and impact.

### 4.3.1 FEEDBACK OF THE SENIOR MANAGEMENT OF MFIS

An overwhelming majority of senior management of the funded MFIs appreciated the role of IMEF Funding in terms of supporting the MFIs tide through the period of crisis in terms of their ability to grow, leverage debt funds, raise additional equity and thus improve their profitability, operational self-sufficiency and financial self-sufficiency indicators. Impact of the funding could be summed up in the feedback provided by one MFI which equated SIDBI IMEF Funding as being the "Life Ventilator" for the ailing MFI Sector, which aided the recovery of the sector. Coming from the apex institution of India for micro finance lending, IMEF funding played a crucial role in restoring the faith of lenders and investors in the sector that was going through its worst ever crisis. Further, majority of MFIs confirmed that even as there were multiple factors that propelled MFIs to streamline their lending practices in accordance to the best practices in lending, SIDBI's pre-sanction conditions, regular monitoring and governance were some of the factors that prodded them further to make this changes. **A summary of the feedback of senior management of the MFIs under each Impact Area has been summarised below:**

**Table 23: Feedback of Senior Management of MFIs**

| Description | Feedback on areas of contribution | Feedback on areas of improvement |
|---|---|---|
| **Impact Area 1 : Building Institutional Sustainability** | | |
| Parameter 1: Ability to match or outgrow industry rates -pre and post IMEF funding<br><br>Parameter 2: Ability to reduce reliance on IMEF funding and other donor funding | A significant majority of MFI representatives asserted IMEF funding provided support to the MFI sector when it passed through its worst crisis. IMEF Funding provided an assurance to the bankers and other lenders who had stopped funding to the sector completely, especially as it came from SIDBI, a reputed government agency. Thus, the funding assisted the MFIs to leverage and | • Few MFIs (especially the larger ones) expressed concerns that the funding amount was lower than required to make a substantial impact on their operations.<br>• Further a few NBFC-MFIs believed that receiving equity funding in place of OCPS or sub-debt could have further enhanced their ability to raise additional |

| Description | Feedback on areas of contribution | Feedback on areas of improvement |
|---|---|---|
| Parameter 3: Impact in financial performance and profitability- | raise more debt from banks and other financial institutions. The feedback has been consistent from both NBFC and Non NBFC MFIs. The same has been corroborated through our impact analysis study, the results for which have been discussed in our previous sections.<br><br>A few NBFC MFIs which obtained the SIDBI funding in the form of equity could also get additional matching equity from other investors.<br><br>MFIs also confirmed that SIDBI funds came at a low cost and with a moratorium of 3-5 years help them reduce their cost of borrowings and focus on growth and rebuilding of their operations.<br><br>A few MFIs, especially NBFC MFIs also reported that the number of lenders, both banks and other financial lenders have been continuously rising post IMEF funding | funds. Many of the MFIs (Especially the smaller ones) highlighted the gaps in equity has one of the primary constraint in achieving higher growth and scalability and sustainability in their operations.<br><br>• Smaller MFIs, especially Non NBFCs and those located in the financially excluded regions of East and North East reported a continued struggle to raise additional debt funds, even as IMEF fund provided them some relief in the immediate term.<br><br>• A few of the funded Non NBFC MFIs have already or are actively considering to apply and get a NBFC license to be able to overcome the limitations associated with being a non profit legal structure either as trust, society or Section 25 company. |
| **Impact Area 2: Increase in Outreach and improvement in lending practices** | | |
| Parameter 1: Ability to grow and diversify customer and geographic segments<br><br>Parameter 2: Increase of presence in under-served or un-served areas | A significant proportion of IMEF funding has been to MFIs with operations in the traditionally under-served Non South states such as Bihar, West Bengal etc and hence funds provided by IMEF for on-lending to these MFIs have helped in increasing the outreach of these MFIs to the extent of funds received and an increased ability to leverage and raise | Many MFIs believed that it is difficult to attribute the improvement in lending practices directly and solely to IMEF funding and was a combined outcome of several other industry level factors including RBI regulations, self regulatory agencies and several self-governance initiatives of MFIs post |

| Description | Feedback on areas of contribution | Feedback on areas of improvement |
|---|---|---|
| Parameter 3: Impact in responsible lending practices- reduction in lending rates | additional funds<br><br>Further, for NBFC MFIs, access to funding and a higher leverage coupled with mandatory requirement of meeting RBI regulations of margin cap has resulted in a consistent reduction in lending rates. IMEF funding has enabled these MFIs to reduce their cost of borrowings and hence reduce their lending rates to meet the margin cap requirements.<br><br>For Non NBFC MFIs, SIDBI's conditions for pre-sanction and pre-disbursements related to COCAs, regular checks and reporting and SIDBI's representatives on the board of a few MFIs has prodded these MFIs to move towards adoption of best practices for lending and also reduce their average lending rates. | the Andhra crisis.<br><br>Direct intervention from SIDBI for capacity building programs such as risk management and operational improvement initiatives could have had a higher direct impact on MFI operations. |
| **Impact Area 3: Improvement in Operational Efficiency** | | |
| Reduction in Cost of operations and Impact in productivity | Few MFIs believed that the ability of the MFIs to grow and achieve scale (backed by IMEF funding and growth in other funding) resulted in a larger scale of operations which translated into economies of scale and hence, reduced cost of operations. However, there was no direct intervention from SIDBI IMEF on this front and hence, we did not receive any elaborate feedback from the senior management of MFIs. | Majority of the MFIs were not willing to attribute any significant portion of their improvement in operational efficiencies and reiterated that IMEF funding resulted in no direct intervention or significant indirect intervention on this front. Further, several smaller MFIS have not been able to make the requisite investments in technological and operational improvement initiatives. Lack of investments in operational efficiency initiatives has emerged as a bog bottleneck for these MFIs to further grow and develop sustainable |

| Description | Feedback on areas of contribution | Feedback on areas of improvement |
|---|---|---|
| | | operations. These MFIs expressed the need of direct interventions from SIDBI in the form of grants or funds to be able to introduce technology initiatives especially in the areas of MIS, networked operations and usage of handheld devices/mobile technology etc. |

In terms of the future relevance and role of IMEF funding, almost all MFIs were unanimous that SIDBI's intervention through IMEF Funding and its role as an enabler to the sector was much appreciated and it should continue to play its role in the medium term (next 3-4 years)to ensure that the MFIs achieve high levels of sustainability. However, to summarise, MFIs pointed out a few possible areas of improvement.

1. Larger MFIs felt that the quantum of SIDBI's IMEF funding has been relatively small compared to their scale of operations and going forward, it would help if the quantum of funding could be increased for larger MFIs to have a more meaningful impact.
2. Smaller MFIs felt that there is a need to couple SIDBI's IMEF funding for on-lending with funding or grants for introducing technological initiatives and streamlining operations within the MFIs to maximise the results of IMEF's intervention.
3. Further, NBFC MFIs irrespective of their size reiterated with SIDBI's funding in the form of equity can potentially result in a significantly higher impact on their operations.

### 4.3.2 FEEDBACK OF THE LENDERS

The lenders were unanimous that SIDBI extending equity or quasi equity funds to MFIs provided them a comfort that the MFIs met the threshold lending criteria of SIDBI, especially for smaller Tier II MFIs (as per their definition MFIs with assets of Rs 40 to Rs 60-70 crore) and to some extent Tier III MFIs. According to the lenders, their lending decisions for Tier I MFIs were largely based on the performance and track record of the MFIs and hence, SIDBI's funding being a relatively small proportion of total funding was not a very defining decision making factor. Further, most of the lenders as a policy have not been lending to Tier III MFIs. However, in a few cases, lenders have extended finance even to Tier III MFIs due to the comfort provided by SIDBI's funding these MFIs. Even as majority of lenders reported that they have refocused and resumed lending to MFIs irrespective of geography of operations and regulatory/legal status of MFIs, there remain some areas of gaps:

1. Lenders still insist on personal guarantees of promoters, fixed deposits of up to 10per cent of loan amount as collateral guarantees as lending to MFIs is largely unsecured in nature
2. Lenders are wary of lending to Tier III MFIs and have focussed on Tier II MFIs (the ones who demonstrate the potential to move to Tier I) and Tier I MFIs

3. Lending rates MFIs are still as high as 12.5-16per cent, with lending rates for Tier III and smaller Tier II MFIs ranging between 14-16 per cent.
4. Lenders also feel that there is a big gap in terms of domestic equity funding in these MFIs and equity interventions can go a long way in improving access of MFIs to debt funds and market borrowings in majority of the MFIs.
5. Lenders are quite optimistic of the growth in the sector, but felt that the gap between larger Tier I MFIs and smaller Tier II MFIs and Tier III MFIs in terms of access to funding could widen, thus adversely impacting the growth potential of Tier III MFIs. SIDBI's interventions targeted at smaller Tier II MFIs and Tier III MFIs that demonstrate a potential to grow and transit into larger MFIs with asset base of more than Rs 60-70 crore can be extremely effective and giving an impetus to the sector**.**

Lenders are unanimous that funding support from SIDBI is a great enabler for the MFI sector, especially for smaller MFIs as it provides an encouragement to mainstream banks and financial institutions to lend to the sector. However, according to them, lending in the form of Tier I equity and a greater focus on lending to smaller Tier II and III MFIs can maximise the fund impact on the sector.

## 5. SUMMARY OF KEY FINDINGS

Summary of key findings based on the scores of detailed evaluation exercise, feedback of the senior management of MFIs and leading lenders to the sector are as follows:

1. **Composition of IMEF Funding:** An analysis of the composition of the funding of IMEF in terms of geography, regulatory structures of the funded MFIs and size of the funded MFIs reveal that the IMEF funds were well distributed and uniform across MFIs.

2. **Impact on Overall Sustainability of the MFIs:** The results of quantitative analysis prove that IMEF funding can be attributed for a high and positive impact on the MFIs in terms of building their overall sustainability in a large proportion of MFIs. However, there are a few sections of MFIs continuing to face challenges in achieving overall sustainability despite receiving IMEF funding support.

3. **Impact on Building Institutional Sustainability (Area 1):** Based on the results of quantitative analysis it can be concluded that IMEF funding can be attributed for a high and direct impact on the MFIs in terms of building their Institutional Sustainability. IMEF funding intervention was direct in this impact area by means of providing funds to MFI for on-lending, improve their ability to raise debt and equity, lower the cost of borrowings and achieve industry level profitability and sustainability ratios. The same has been corroborated with feedback from MFIs and lenders.

4. **Impact on Building Institutional Sustainability by regulatory status of MFIs**: Based on the results of quantitative analysis, it can be concluded that NBFC MFIs demonstrated a higher improvement in the level of institutional sustainability as compared to Non NBFC MFIs, post IMEF funding. The phenomena highlights that there a larger set of concerns (more than funding support) that are to be addressed for Non NBFC MFIs and the same has been corroborated with feedback from MFIs and lenders.

5. **Impact on Building Institutional Sustainability by size of MFIs**: Based on the results of quantitative analysis, it can be concluded that Tier III MFIs (irrespective of their regulatory structure) as a category has demonstrated a relatively lower impact of IMEF funding in the medium term compared to Tier II MFIs, thus signifying their struggle in achieving and continuing to be institutionally sustainable despite funding support.

6. **Impact on Building Institutional Sustainability key parameters for NBFC MFIs with a medium to high impact of IMEF funding in medium term**: An analysis of the scores on nine key financial ratios[22] was conducted for NBFC MFIs that demonstrated a medium to high impact of IMEF funding. The results clearly demonstrated that the high impact NBFC MFIs registered a significant improvement (as reflected in the average score and quantum of impact) on several key parameters that have been analysed to assess Institutional Sustainability.

7. **Impact on Building Institutional Sustainability key parameters for Non NBFC MFIs with a medium to high impact of IMEF funding in medium term**: An analysis of the scores on nine key

[22]Nine Key financial ratios considered are Growth Debt funding, Growth in Equity funding, Leverage ratio, Growth in Managed portfolio, Cost of Borrowings, % of NBFC and Bank borrowings in total borrowings, Operational Self Sufficiency ratio, Financial Self Sufficiency ratio and Return on Assets

financial ratios[23] was conducted for Non NBFC MFIs that demonstrated a medium to high impact of IMEF funding. The results clearly demonstrated that the high impact Non NBFC MFIs registered a moderate improvement (as reflected in the average scores and quantum of impact) on several key parameters that have been analysed to assess Institutional Sustainability.

8. **Impact on Increasing Outreach and lending practices (Area 2):** The results of the quantitative analysis demonstrated a high impact/improvement on increasing outreach and improving lending practices post IMEF lending. However, improvement under this impact area can be termed as somewhat indirect and partial outcome of IMEF as even though its interventions were direct in the area of increasing outreach, they are indirect and partially responsible for improvement lending practices. The same has been corroborated with feedback from MFI management.

9. **Impact on Increasing Outreach and lending practices by regulatory structure:** The results of the quantitative analysis reveal that NBFC MFIs showed a higher improvement in this impact area as compared to Non NBFC MFI, post IMEF Funding.

10. **Impact on Increasing Outreach and lending practices by key parameters for NBFC MFIs with a medium to high impact of IMEF funding in medium term**: An analysis of the scores on five[24] key financial ratios[25] was conducted for High impact[26] NBFC MFIs in this impact area that NBFC MFIs registered a high improvement (as reflected in the average scores and quantum of impact) on several key parameters that have been analysed, yet there were only moderate improvement in their score on lending rates. This phenomenon clearly proves that lending rates for NBFC MFIs were already reduced due to RBI regulations and hence, cannot be attributable to IMEF funding.

11. **Impact on Increasing Outreach and lending practices by key parameters for Non NBFC MFIs with a medium to high impact of IMEF funding in medium term**: An analysis of the scores on five[27] key financial ratios[28] was conducted for High impact[29] Non NBFC MFIs in this impact area that Non NBFC MFIs registered a moderate improvement on several key parameters that have been analysed. However, they reflected a high improvement in their scores on lending rates, post IMEF funding

12. **Impact of IMEF on Improving Operational Efficiency (Area 3):** MFIs demonstrated a moderate impact in terms of their ability to improve their operational efficiency. IMEF had no direct intervention in this impact area and no indirect mechanism (through their lending terms and conditions) to help MFIs improve their performance in this impact area.

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[24] Five key parameters analysed were Growth in Disbursements, Growth in Number of Borrowers, Growth in Number of branches, Growth in No: of States and Average Lending Rate

26High Impact NBFC MFIs are defined as NBFC MFIs that demonstrated a medium to high quantum of impact of IMEF funding in this Impact Area

[27] Five key parameters analysed were Growth in Disbursements, Growth in Number of Borrowers, Growth in Number of branches, Growth in No: of States and Average Lending Rate

29High Impact NBFC MFIs are defined as NBFC MFIs that demonstrated a medium to high quantum of impact of IMEF funding in this Impact Area

13. **Impact of IMEF on Overall Sustainability by instrument of funding:** In terms of an assessment of the effectiveness of instrument of funding, equity interventions were found to be marginally more impactful on improving the institutional sustainability of the funded MFIs as compared to quasi equity (OCPS/sub-debt) interventions. MFIs and lenders validated this finding as they reported that currently the gap in equity funding is larger than the gap in debt funding in the MFI sector and a key factor limiting the ability of MFIs to grow.

14. **Impact of IMEF on Overall Sustainability by geography of operations:** In terms of an assessment of the performance of the funded MFIs across geographies, the observed impact of the IMEF funding was mixed and varied across geographies depending on the presence and prevalence of regulatory structures and size of the MFIs in each region.

15. **Expected Outlook for the next three years for funded MFIs:** Going forward, All MFIs, irrespective of their regulatory structure share an optimistic outlook on their expected growth in business. However, while NBFC MFIs expect a significant improvement in their profitability, Non NBFC MFIs expect some pressure on their profitability indicators.

## 6. RECOMMENDATIONS

IMEF funds provided the much needed support to MFIs who were looking to revive and stabilise their operations, post the Andhra crisis. The impact has been visible across multiple impact areas and sub impact areas and across all sizes of MFIs, even as there are minor variations by geography, size of operations and regulatory structure of MFIs in the quantum and degree of impact. Senior Management and lenders agree on the role and contribution of SIDBI IMEF Funds in providing an impetus to the ailing MFI by providing them funds to on-lend as well as a higher ability to leverage and attract more funds from other banks and institutional lenders.

The MFI sector has shown signs of regaining their growth and profitability with a focus on developing value based sustainable operations. However, many of the smaller MFIs (Especially Tier II and Tier III) still need to address basic challenges pertaining to high cost and narrow base of borrowings, low investments in technology and hence, high cost of operations. Sustainability of operations is dependent on their ability to have access to equity, low cost borrowings, a diversified funding base and an ability to achieve operational efficiencies to be able to operate on a scalable, profitable and self-sustainable basis within the regulatory margin caps. In this scenario, a continued funding support from SIDBI can provide the much needed impetus to these smaller MFIs to enable them to grow to a critical size and sustainable operations.

**Our recommendations on the future course of IMEF are as follows:**

1. The Micro Finance sector continues to require funding and capacity building interventions to be able to develop into a healthier and self-sustainable sector. Hence, IMEF should continue with its pioneering interventions of supporting smaller MFIs in terms of enabling them to grow into self-sustainable organisations.
2. Going forward, IMEF should continue providing funds to smaller MFIs with a specific focus on Tier II and Tier III MFIs. We would suggest further targeted selection criteria for MFIs rather than the current blanket criteria based on Tiers of MFIs linked to their number of borrowers.
    - 2.1. As observed, currently more than 20 per cent of IMEF funds went to larger Tier II MFIs with asset base of more than Rs 100 crore. The management of these large MFIs attributed limited contribution of IMEF to their overall performance citing the small quantum of IMEF funds relative to their overall capital base. Similarly, lenders felt that they would be comfortable in lending to larger MFIs even without IMEF interventions. Hence, IMEF funding to these MFIs might not yield the any significant improvement in these MFIs.
    - 2.2. The popular market feedback and our assessment has been that the funding is most effective in MFIs with an asset base in the range of Rs 40-100 crore. Hence, Funding to MFIs smaller than this asset base has to be based on an assessment of the potential to transition into a Tier II MFI with adequate/requisite support and interventions. Hence, we recommend that IMEF develop a more defined selection criteria for smaller MFIs based on assessment of their potential to grow into socially relevant and profitability organisations as reflected in the strength and experience of their senior management, past track record and assessment reports by third party agencies
3. IMEF should evaluate the option of offering more comprehensive support to MFIs selected for MFIs as smaller MFIs irrespective of their regulatory structure struggled to cross the average level of

sustainability with funding support. A few recommended components such comprehensive support can be:

3.1. Additional support to small and deserving MFIs in the form of guarantee encourage the lenders to come forward and lend to these MFIs

3.2. Additional subsidised debt funds/grants for smaller MFIs which are constrained by high cost of operations and hence, lack funds to invest in upgrading their state of technology in the field of credit, MIS and field operations.

3.3. Non NBFC MFIs could be encouraged to transform into the more transparent, regulated and debt amenable structure of NBFC MFIs. IMEF could have an add-on capacity building component in the form of funds or consulting advice for these MFIs to be able to apply for NBFC license and adapt to the norms and nuances of operating as a RBI regulated entity.

4. The fund should increase its proportion of equity funding for NBFCs MFIS with a strong track record. IMEF Funds in the form of equity for NBFC MFIs should bring in a higher impact on the operations of these MFIs, as it increases their ability to raise more equity from both foreign and domestic institutional investors. MFIs and lenders have reported availability of equity has a bigger challenge in their ability to leverage and grow. A few recommended changes are:

4.1. Conditions for conversion of quasi equity instruments to equity can be more clearly defined and made mile-stone based to encourage the MFIs to achieve those performance milestones and also, provide a sight of view to the lenders to enable them to consider funds as equity or debt

4.2. Further, IMEF funds could be tranche based, with equity infusions in second tranche for deserving MFIs subject to meeting certain condition by MFIs related to scale profitability, lending practices and/or operational improvement milestones.

## 7. CHARACTERISTICS AND SCORE OF INDIVIDUAL MFIS

**Table 34: Characteristics of the funded MFIs**

| S. No: | Name of MFI | Legal/Regulatory Status | Geography (State/Region) | Size of MFI | Instrument | Date of IMEF Sanction | Amount |
|---|---|---|---|---|---|---|---|
| 1 | **Annapurna Mahila Co-operative Credit Society Ltd.** | Non-NBFC | West | III | Subordinated Debt | 23.8.12 &27.11.13 | 5 |
| 2 | **Annapurna Microfinance Pvt. Ltd.** | NBFC | East | II | Equity & OCPS | Apr-12 | 3 |
| 3 | **Arth Microfinance Pvt. Ltd.** | NBFC | North | III | OCPS | Apr-12 | 3 |
| 4 | **Belghoria Janakalyan Samity - Society** | Non-NBFC | East | III | Subordinated Debt | Aug-12 | 1.5 |
| 5 | **Bhartiya Micro Credit - Section 25** | Non-NBFC | North | III | Subordinated Debt | Apr-12 | 2 |
| 6 | **BSS Microfinance Pvt. Ltd.** | NBFC | South | II | OCPS | Oct-14 | 5 |
| 7 | **BWDA Finance Ltd.** | NBFC | South | II | Equity | Apr-14 | 3 |
| 8 | **Cashpor Micro Credit - Section 25** | Non-NBFC | North | II | Subordinated Debt | Apr-12 | 5 |
| 38 | **CECODECON** | Non-NBFC | West | III | Subordinated Debt | Sep-14 | 1.5 |
| 9 | **Centre for Development Orientation & Training - Society** | Non-NBFC | East | III | Subordinated Debt | May-12 | 3 |

| S. No: | Name of MFI | Legal/Regulatory Status | Geography (State/Region) | Size of MFI | Instrument | Date of IMEF Sanction | Amount |
|---|---|---|---|---|---|---|---|
| **10** | **ChanuraMicrofin Manipur - Society** | Non-NBFC | North East | III | Subordinated Debt | Oct-12 | 0.5 |
| **11** | **Dhosa Chandaneswar Bratyajana Samity - Society** | Non-NBFC | East | III | Subordinated Debt | Sep-12 | 0.75 |
| **12** | **Digamber Capfin Limited** | NBFC | West | III | OCPS | Sep-14 | 3 |
| **13** | **Fusion Microfinance Private Limited** | NBFC | North | II | OCPS | Oct-14 | 3 |
| **14** | **Humana People to People India - Section 25** | Non-NBFC | West | III | Subordinated Debt | 06.07.12 &27.9.13 | 4 |
| **15** | **IDF Financial Services Pvt. Ltd.,** | NBFC | South | II | OCPS | Mar-14 | 5 |
| **16** | **Light Microfinance Pvt. Ltd.** | NBFC | West | III | Equity & OCPS | Apr-14 | 2 |
| **17** | **Lupin Human Welfare & Research Foundation - Society** | Non-NBFC | West | III | Subordinated Debt | Apr-14 | 3 |
| **18** | **M Power Micro Finance Pvt. Ltd.** | NBFC | West | III | OCPS | Dec-14 | 2 |
| **19** | **Mahashakti Foundation - Society** | Non-NBFC | East | III | Subordinated Debt | Oct-12 | 0.75 |
| **20** | **Margdarshak Financial Services Ltd.** | NBFC | North | III | Equity & OCPS | April-12 & Sept-14 | 5 |
| **21** | **Pahal Financial Services Pvt. Ltd.** | NBFC | West | III | OCPS | Apr-13 | 3 |
| **22** | **PRAYAS (Organisation for Sustainable Development) - Trust** | Non-NBFC | West | III | Subordinated Debt | Dec-12 | 2 |

| S. No: | Name of MFI | Legal/Regulatory Status | Geography (State/Region) | Size of MFI | Instrument | Date of IMEF Sanction | Amount |
|---|---|---|---|---|---|---|---|
| 23 | **RGVN (North East Microfinance Ltd.** | NBFC | North East | II | Equity | Feb-12 & April-13 | 5 |
| 24 | **Sahara Utsarga Welfare Society - Society** | Non-NBFC | East | II | Subordinated Debt | Jul-12 | 3 |
| 25 | **Sahayog Microfinance Ltd.** | NBFC | Central | II | OCPS | Nov-12 | 3 |
| 39 | **Saija Finance Private Limited** | NBFC | East | III | OCPS | Feb-13 | 3 |
| 26 | **SakhiSamudayKosh** | Non-NBFC | West | III | Subordinated Debt | Feb-14 | 1 |
| 40 | **Samasta Microfinance Limited** | NBFC | South | II | Equity & OCPS | Jul-14 | 2.5 |
| 41 | **Sambandh FinservePvt. Ltd.** | NBFC | East | III | OCPS | Jul-12 | 3 |
| 27 | **Sanghamithra Rural Financial Services - Section 25** | Non-NBFC | South | II | Subordinated Debt | Mar-12 | 5 |
| 28 | **Sarala Women Welfare Society - Society** | Non-NBFC | East | II | Subordinated Debt | Jul-12 | 5 |
| 29 | **SebaRahara - Society** | Non-NBFC | East | III | Subordinated Debt | Oct-12 | 1 |
| 30 | **Shikhar Microfinance Private Limited** | NBFC | North | III | Equity & OCPS | 3.7.14 & 11.9.12 | 5 |
| 31 | **Society For Model Gram Bikash Kendra - Society** | Non-NBFC | East | III | Subordinated Debt | Mar-12 | 2 |
| 32 | **Sonata Finance Pvt. Ltd.** | NBFC | North | II | OCPS | Oct-13 | 5 |

| S. No: | Name of MFI | Legal/Regulatory Status | Geography (State/Region) | Size of MFI | Instrument | Date of IMEF Sanction | Amount |
|---|---|---|---|---|---|---|---|
| **33** | **Swadhaar Finserve Private Limited** | NBFC | West | II | Equity | Mar-12 | 3 |
| **42** | **Swayamshree Micro Credit Services - Section 25** | Non-NBFC | East | III | Subordinated Debt | Nov-12 | 3 |
| **34** | **UNACCO** | NBFC | North East | II | OCPS | FY14 | 1 |
| **35** | **Utkarsh Micro Finance** | NBFC | North | II | Equity | FY14 | 3 |
| **36** | **Uttarayan Financial Services Pvt. Ltd.** | NBFC | East | III | OCPS | Sep-12 | 1.5 |
| **37** | **YVU Microfin - Trust** | Non-NBFC | North East | III | Subordinated Debt | Sep-12 | 2 |

**Table 35: MFIs Score and Impact on Overall Sustainability**

| S. No: | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/Low) | Category of quantum (High/Medium/Low) |
|---|---|---|---|---|---|---|
| 1 | Annapurna Mahila Co-operative Credit Society Ltd. - Multi-State Co-operative Society | 2.87 | 3.12 | 3.24 | MEDIUM | MEDIUM |
| 2 | Annapurna Microfinance Pvt. Ltd. | 2.67 | 3.92 | 4.39 | HIGH | HIGH |
| 3 | Arth Microfinance Pvt. Ltd. | 2.15 | 2.55 | 3.17 | MEDIUM | HIGH |
| 4 | Belghoria Janakalyan Samity - Society | 2.44 | 2.42 | 3.56 | LOW | HIGH |
| 5 | Bhartiya Micro Credit - Section 25 | 2.57 | 3.18 | 3.55 | HIGH | HIGH |
| 6 | BSS Microfinance Pvt. Ltd. | 1.95 | 2.37 | 2.8 | MEDIUM | HIGH |
| 7 | BWDA Finance Ltd. | 2.15 | 2.18 | 2.56 | MEDIUM | MEDIUM |
| 8 | Cashpor Micro Credit - Section 25 | 2.82 | 3.73 | 3.94 | HIGH | HIGH |
| 9 | Centre for Development Orientation & Training - Society | 2.52 | 2.97 | 3.13 | MEDIUM | HIGH |
| 10 | Chanura Microfin Manipur - Society | 2.22 | 2.27 | 2.86 | MEDIUM | HIGH |
| 11 | Dhosa Chandaneswar Bratyajana Samity - Society | 2.64 | 3.25 | 3.44 | HIGH | HIGH |
| 12 | Digamber Capfin Limited | 2.45 | 2.55 | NA | MEDIUM | NA |
| 13 | Fusion Microfinance Private Limited | 2.82 | 2.91 | 3.93 | MEDIUM | HIGH |
| 14 | Humana People to People India - Section 25 | 2.8 | 2.91 | 3.6 | MEDIUM | HIGH |
| 15 | IDF Financial Services Pvt. Ltd., | 2.33 | 2.38 | 2.74 | MEDIUM | MEDIUM |

| S. No : | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium /Low) | Category of quantum (High/Medium/ Low) |
|---|---|---|---|---|---|---|
| 16 | Light Microfinance Pvt. Ltd. | 2.45 | 2.9 | NA | MEDIUM | NA |
| 17 | M Power Micro Finance Pvt. Ltd. | 2.61 | 3.44 | NA | HIGH | NA |
| 18 | Mahashakti Foundation - Society | 1.93 | 2.11 | 3.03 | MEDIUM | HIGH |
| 19 | Margdarshak Financial Services Ltd. | 2.67 | 2.98 | 3.34 | MEDIUM | HIGH |
| 20 | Pahal Financial Services Pvt. Ltd. | 3.1 | 3.72 | NA | HIGH | NA |
| 21 | PRAYAS (Organisation for Sustainable Development) - Trust | 2.71 | 2.69 | 2.6 | LOW | LOW |
| 22 | RGVN (North East Microfinance Ltd. | 2.88 | 3.34 | 3.47 | MEDIUM | HIGH |
| 23 | Sahara Utsarga Welfare Society - Society | 2.46 | 2.49 | 2.55 | MEDIUM | MEDIUM |
| 24 | Sahayog Microfinance Ltd. | 3.08 | 3.09 | 4.07 | MEDIUM | HIGH |
| 25 | Saija Finance Private Limited | 2.39 | 3.85 | NA | HIGH | NA |
| 26 | Sakhi Samuday Kosh | 3.12 | 4.11 | NA | HIGH | NA |
| 27 | Samasta | 2.72 | 2.47 | NA | LOW | NA |
| 28 | Sambandh | 2.51 | 3.06 | 3.71 | HIGH | HIGH |
| 29 | Sanghamithra Rural Financial Services - Section 25 | 2.21 | 2.44 | 2.94 | MEDIUM | HIGH |
| 30 | Sarala Women Welfare Society - Society | 2.4 | 2.58 | 3.01 | MEDIUM | HIGH |
| 31 | SebaRahara - Society | 2.78 | 3.27 | 3.45 | MEDIUM | HIGH |
| 32 | Shikhar Microfinance Private Limited | 2.48 | 3.08 | 3.38 | HIGH | HIGH |

| S. No : | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium /Low) | Category of quantum (High/Medium/ Low) |
|---|---|---|---|---|---|---|
| **33** | Society For Model Gram Bikash Kendra - Society | 3.23 | 2.52 | 2.8 | LOW | LOW |
| **34** | Sonata Finance Pvt. Ltd. | 3.4 | 4.42 | NA | HIGH | NA |
| **35** | Swadhaar Finserve Private Limited | 2.61 | 2.61 | 3.44 | MEDIUM | HIGH |
| **36** | Swayamshree Micro Credit Services - Section 25 | 2.54 | 2.68 | 3.06 | MEDIUM | HIGH |
| **37** | UNACCO | 2.43 | 2.66 | NA | MEDIUM | NA |
| **38** | Utkarsh Micro Finance | 3.8 | 4.07 | NA | MEDIUM | NA |
| **39** | Uttarayan Financial Services Pvt. Ltd. | 2.17 | 3.16 | 2.91 | HIGH | HIGH |
| **40** | YVU Microfin - Trust | 2.19 | 2.85 | 2.79 | HIGH | HIGH |

**Table 36: MFIs Score and Impact on Impact Area 1: Institutional Sustainability**

| S. No: | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/ Low) | Category of quantum (High/Medium/Low) |
|---|---|---|---|---|---|---|
| 1 | Annapurna Mahila Co-operative Credit Society Ltd. - Multi-State Co-operative Society | 2.82 | 3.32 | 3.02 | 0.5 | HIGH |
| 2 | Annapurna Microfinance Pvt. Ltd. | 2.81 | 4.37 | 4.33 | 1.56 | HIGH |
| 3 | Arth Microfinance Pvt. Ltd. | 2.09 | 2.47 | 3.03 | 0.38 | MEDIUM |
| 4 | Belghoria Janakalyan Samity - Society | 2.72 | 2.38 | 3.56 | -0.34 | LOW |
| 5 | Bhartiya Micro Credit - Section 25 | 2.4 | 3.4 | 3.36 | 1 | HIGH |
| 6 | BSS Microfinance Pvt. Ltd. | 2.09 | 2.6 | 3.01 | 0.51 | HIGH |
| 7 | BWDA Finance Ltd. | 2.08 | 2.26 | 2.93 | 0.18 | MEDIUM |
| 8 | Cashpor Micro Credit - Section 25 | 3.1 | 4.36 | 4.14 | 1.26 | HIGH |
| 9 | Centre for Development Orientation & Training - Society | 2.58 | 3.32 | 3.16 | 0.74 | HIGH |
| 10 | Chanura Microfin Manipur - Society | 2 | 2.16 | 2.28 | 0.16 | MEDIUM |
| 11 | Dhosa Chandaneswar Bratyajana Samity - Society | 2.94 | 3.9 | 3.46 | 0.96 | HIGH |
| 12 | Digamber Capfin Limited | 2.05 | 1.74 | NA | -0.31 | LOW |
| 13 | Fusion Microfinance Private Limited | 2.57 | 2.96 | 3.76 | 0.39 | MEDIUM |

| S. No: | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/Low) | Category of quantum (High/Medium/Low) |
|---|---|---|---|---|---|---|
| 14 | Humana People to People India - Section 25 | 2.94 | 2.72 | 3.5 | -0.22 | LOW |
| 15 | IDF Financial Services Pvt. Ltd., | 2.66 | 2.65 | 2.93 | -0.01 | LOW |
| 16 | Light Microfinance Pvt. Ltd. | 2.49 | 3 | NA | 0.51 | HIGH |
| 17 | M Power Micro Finance Pvt. Ltd. | 2.59 | 3.24 | NA | 0.65 | HIGH |
| 18 | Mahashakti Foundation - Society | 1.28 | 1.86 | 2.62 | 0.58 | HIGH |
| 19 | Margdarshak Financial Services Ltd. | 2.21 | 2.57 | 3.03 | 0.36 | MEDIUM |
| 20 | Pahal Financial Services Pvt. Ltd. | 2.75 | 4.01 | NA | 1.26 | HIGH |
| 21 | PRAYAS (Organisation for Sustainable Development) - Trust | 2.92 | 2.62 | 2.52 | -0.3 | LOW |
| 22 | RGVN (North East Microfinance Ltd. | 3.24 | 3.66 | 3.66 | 0.42 | MEDIUM |
| 23 | Sahara Utsarga Welfare Society - Society | 2.9 | 3.18 | 2.78 | 0.28 | MEDIUM |
| 24 | Sahayog Microfinance Ltd. | 2.96 | 2.95 | 4.06 | -0.01 | LOW |
| 25 | Saija Finance Private Limited | 1.96 | 3.67 | NA | 1.71 | HIGH |
| 26 | Sakhi Samuday Kosh | 3.16 | 4.06 | NA | 0.9 | HIGH |
| 27 | Samasta | 2.41 | 2.3 | NA | -0.11 | LOW |
| 28 | Sambandh | 2.33 | 3.06 | 3.68 | 0.73 | HIGH |

| S. No: | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/Low) | Category of quantum (High/Medium/Low) |
|---|---|---|---|---|---|---|
| 29 | Sanghamithra Rural Financial Services - Section 25 | 2.38 | 2.36 | 3.32 | -0.02 | LOW |
| 30 | Sarala Women Welfare Society - Society | 2.54 | 2.78 | 3 | 0.24 | MEDIUM |
| 31 | SebaRahara - Society | 3.26 | 3.78 | 3.46 | 0.52 | HIGH |
| 32 | Shikhar Microfinance Private Limited | 2.38 | 3.31 | 2.75 | 0.93 | HIGH |
| 33 | Society For Model Gram Bikash Kendra - Society | 3.31 | 2.66 | 2.94 | -0.65 | LOW |
| 34 | Sonata Finance Pvt. Ltd. | 3.62 | 4.42 | NA | 0.8 | HIGH |
| 35 | Swadhaar Finserve Private Limited | 2.62 | 2.83 | 3.69 | 0.21 | MEDIUM |
| 36 | Swayamshree Micro Credit Services - Section 25 | 2.63 | 3.24 | 3.06 | 0.61 | HIGH |
| 37 | UNACCO | 2.28 | 2.59 | NA | 0.31 | MEDIUM |
| 38 | Utkarsh Micro Finance | 3.84 | 4.1 | NA | 0.26 | MEDIUM |
| 39 | Uttarayan Financial Services Pvt. Ltd. | 1.95 | 3.37 | 2.97 | 1.42 | HIGH |
| 40 | YVU Microfin - Trust | 2 | 3.2 | 2.7 | 1.2 | HIGH |

**Table 36: MFIs Score and Impact on Impact Area 2: Outreach and Lending Practices**

| S. No : | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/Low) | Category of quantum (High/Medium/Low) |
|---|---|---|---|---|---|---|
| 1 | Annapurna Mahila Co-operative Credit Society Ltd. - Multi-State Co-operative Society | 3.24 | 2.88 | 3.62 | -0.36 | LOW |
| 2 | Annapurna Microfinance Pvt. Ltd. | 2.65 | 3.69 | 4.45 | 1.04 | HIGH |
| 3 | Arth Microfinance Pvt. Ltd. | 2.06 | 2.72 | 3.71 | 0.67 | HIGH |
| 4 | Belghoria Janakalyan Samity - Society | 1.86 | 2.3 | 3.38 | 0.44 | MEDIUM |
| 5 | Bhartiya Micro Credit - Section 25 | 2.92 | 3.56 | 4.27 | 0.64 | HIGH |
| 6 | BSS Microfinance Pvt. Ltd. | 1.88 | 2.08 | 2.5 | 0.2 | MEDIUM |
| 7 | BWDA Finance Ltd. | 1.84 | 1.89 | 1.84 | 0.05 | MEDIUM |
| 8 | Cashpor Micro Credit - Section 25 | 2.21 | 3.01 | 3.52 | 0.8 | HIGH |
| 9 | Centre for Development Orientation & Training - Society | 2.16 | 2.86 | 3.43 | 0.7 | HIGH |
| 10 | Chanura Microfin Manipur - Society | 1.87 | 2.01 | 3.13 | 0.14 | MEDIUM |
| 11 | Dhosa Chandaneswar Bratyajana Samity - Society | 2.4 | 2.71 | 3.41 | 0.31 | MEDIUM |
| 12 | Digamber Capfin Limited | 3.1 | 3.44 | NA | 0.34 | MEDIUM |
| 13 | Fusion Microfinance Private Limited | 3.27 | 2.95 | 4.25 | -0.32 | LOW |
| 14 | Humana People to People India - Section 25 | 2.9 | 3.35 | 3.87 | 0.46 | MEDIUM |

| S. No : | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/ Low) | Category of quantum (High/Medium/ Low) |
|---|---|---|---|---|---|---|
| 15 | IDF Financial Services Pvt. Ltd., | 1.76 | 1.78 | 2.38 | 0.02 | MEDIUM |
| 16 | Light Microfinance Pvt. Ltd. | 2.48 | 2.8 | NA | 0.32 | MEDIUM |
| 17 | M Power Micro Finance Pvt. Ltd. | 2.66 | 4.08 | NA | 1.42 | HIGH |
| 18 | Mahashakti Foundation - Society | 2.73 | 2.33 | 3.55 | -0.4 | LOW |
| 19 | Margdarshak Financial Services Ltd. | 3.49 | 3.7 | 3.99 | 0.21 | MEDIUM |
| 20 | Pahal Financial Services Pvt. Ltd. | 3.62 | 3.54 | NA | -0.08 | LOW |
| 21 | PRAYAS (Organisation for Sustainable Development) - Trust | 2.69 | 3.09 | 2.72 | 0.4 | MEDIUM |
| 22 | RGVN (North East Microfinance Ltd. | 2.13 | 2.87 | 2.71 | 0.74 | HIGH |
| 23 | Sahara Utsarga Welfare Society - Society | 2.45 | 2.33 | 2.75 | -0.12 | LOW |
| 24 | Sahayog Microfinance Ltd. | 3.51 | 3.55 | 4.23 | 0.04 | MEDIUM |
| 25 | Saija Finance Private Limited | 2.84 | 4.41 | NA | 1.58 | HIGH |
| 26 | Sakhi Samuday Kosh | 3.09 | 4.36 | NA | 1.27 | HIGH |
| 27 | Samasta | 2.89 | 2.24 | NA | -0.66 | LOW |
| 28 | Sambandh | 2.98 | 3.46 | 4.04 | 0.48 | MEDIUM |
| 29 | Sanghamithra Rural Financial Services - Section 25 | 2.55 | 2.72 | 2.89 | 0.18 | MEDIUM |
| 30 | Sarala Women Welfare Society - Society | 2.35 | 2.45 | 2.51 | 0.1 | MEDIUM |
| 31 | SebaRahara - Society | 1.96 | 2.66 | 3.16 | 0.7 | HIGH |

| S. No : | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/ Low) | Category of quantum (High/Medium/ Low) |
|---|---|---|---|---|---|---|
| **32** | Shikhar Microfinance Private Limited | 2.53 | 2.85 | 4.03 | 0.32 | MEDIUM |
| **33** | Society For Model Gram Bikash Kendra - Society | 3.19 | 2.09 | 2.67 | -1.1 | LOW |
| **34** | Sonata Finance Pvt. Ltd. | 3.39 | 4.57 | NA | 1.18 | HIGH |
| **35** | Swadhaar Finserve Private Limited | 3.08 | 2.8 | 4.21 | -0.28 | LOW |
| **36** | Swayamshree Micro Credit Services - Section 25 | 2.54 | 2.22 | 3.36 | -0.32 | LOW |
| **37** | UNACCO | 2.49 | 2.47 | NA | -0.02 | LOW |
| **38** | Utkarsh Micro Finance | 3.69 | 4.11 | NA | 0.42 | MEDIUM |
| **39** | Uttarayan Financial Services Pvt. Ltd. | 2.49 | 3.5 | 3.09 | 1.01 | HIGH |
| **40** | YVU Microfin - Trust | 2.39 | 2.52 | 2.84 | 0.13 | MEDIUM |

**Table 37: MFIs Score and Impact on Impact Area 3: Operational Efficiencies**

| S. No: | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/ Low) | Category of quantum (High/Medium/ Low) |
|---|---|---|---|---|---|---|
| 1 | Annapurna Mahila Co-operative Credit Society Ltd. - Multi-State Co-operative Society | 2.45 | 3 | 3.25 | 0.55 | HIGH |
| 2 | Annapurna Microfinance Pvt. Ltd. | 2.35 | 3.15 | 4.45 | 0.8 | HIGH |
| 3 | Arth Microfinance Pvt. Ltd. | 2.45 | 2.5 | 2.7 | 0.05 | MEDIUM |
| 4 | Belghoria Janakalyan Samity - Society | 2.6 | 2.7 | 3.85 | 0.1 | MEDIUM |
| 5 | Bhartiya Micro Credit - Section 25 | 2.45 | 2.05 | 2.95 | -0.4 | LOW |
| 6 | BSS Microfinance Pvt. Ltd. | 1.7 | 2.25 | 2.75 | 0.55 | HIGH |
| 7 | BWDA Finance Ltd. | 2.8 | 2.4 | 2.7 | -0.4 | LOW |
| 8 | Cashpor Micro Credit - Section 25 | 3.05 | 3.25 | 4.05 | 0.2 | MEDIUM |
| 9 | Centre for Development Orientation & Training - Society | 2.9 | 2.25 | 2.6 | -0.65 | LOW |
| 10 | ChanuraMicrofin Manipur - Society | 3.3 | 2.95 | 3.9 | -0.35 | LOW |
| 11 | Dhosa Chandaneswar Bratyajana Samity - Society | 2.25 | 2.45 | 3.45 | 0.2 | MEDIUM |
| 12 | DigamberCapfin Limited | 2.45 | 3.25 | NA | 0.8 | HIGH |
| 13 | Fusion Microfinance Private Limited | 2.75 | 2.7 | 3.85 | -0.05 | LOW |
| 14 | Humana People to People India - Section 25 | 2.3 | 2.7 | 3.45 | 0.4 | MEDIUM |
| 15 | IDF Financial Services Pvt. Ltd., | 2.35 | 2.6 | 2.8 | 0.25 | MEDIUM |

| S. No: | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/ Low) | Category of quantum (High/Medium/ Low) |
|---|---|---|---|---|---|---|
| 16 | Light Microfinance Pvt. Ltd. | 2.3 | 2.8 | NA | 0.5 | HIGH |
| 17 | M Power Micro Finance Pvt. Ltd. | 2.6 | 3 | NA | 0.4 | MEDIUM |
| 18 | Mahashakti Foundation - Society | 2.35 | 2.4 | 3.25 | 0.05 | MEDIUM |
| 19 | Margdarshak Financial Services Ltd. | 2.6 | 2.9 | 3.15 | 0.3 | MEDIUM |
| 20 | Pahal Financial Services Pvt. Ltd. | 3.2 | 3.25 | NA | 0.05 | MEDIUM |
| 21 | PRAYAS (Organisation for Sustainable Development) - Trust | 2.2 | 2.25 | 2.65 | 0.05 | MEDIUM |
| 22 | RGVN (North East Microfinance Ltd. | 3.1 | 3.23 | 4.15 | 0.13 | MEDIUM |
| 23 | Sahara Utsarga Welfare Society - Society | 1.35 | 1 | 1.65 | -0.35 | LOW |
| 24 | Sahayog Microfinance Ltd. | 2.75 | 2.78 | 3.85 | 0.02 | MEDIUM |
| 25 | Saija Finance Private Limited | 2.78 | 3.45 | NA | 0.68 | HIGH |
| 26 | Sakhi Samuday Kosh | 3.05 | 3.85 | NA | 0.8 | HIGH |
| 27 | Samasta | 3.25 | 3.25 | NA | 0 | MEDIUM |
| 28 | Sambandh | 2.25 | 2.45 | 3.3 | 0.2 | MEDIUM |
| 29 | Sanghamithra Rural Financial Services - Section 25 | 1.3 | 2.2 | 2.05 | 0.9 | HIGH |
| 30 | Sarala Women Welfare Society - Society | 2.1 | 2.25 | 3.8 | 0.15 | MEDIUM |
| 31 | SebaRahara - Society | 2.8 | 2.9 | 3.85 | 0.1 | MEDIUM |
| 32 | Shikhar Microfinance Private Limited | 2.65 | 2.85 | 4 | 0.2 | MEDIUM |
| 33 | Society For Model Gram Bikash Kendra - Society | 3.1 | 2.8 | 2.65 | -0.3 | LOW |
| 34 | Sonata Finance Pvt. Ltd. | 2.85 | 4.2 | NA | 1.35 | HIGH |

| S. No: | Name of MFI | Pre-funding Score | Post Funding Score-Immediate | Post Funding Score-mid term | Category of quantum (High/Medium/Low) | Category of quantum (High/Medium/Low) |
|---|---|---|---|---|---|---|
| **35** | Swadhaar Finserve Private Limited | 1.9 | 1.8 | 1.65 | -0.1 | LOW |
| **36** | Swayamshree Micro Credit Services - Section 25 | 2.3 | 1.95 | 2.6 | -0.35 | LOW |
| **37** | UNACCO | 2.7 | 3.1 | NA | 0.4 | MEDIUM |
| **38** | Utkarsh Micro Finance | 3.85 | 3.95 | NA | 0.1 | MEDIUM |
| **39** | Uttarayan Financial Services Pvt. Ltd. | 2.25 | 2.15 | 2.5 | -0.1 | LOW |
| **40** | YVU Microfin - Trust | 2.35 | 2.45 | 2.95 | 0.1 | MEDIUM |

# 8. LIST OF APPENDICES

## 8.1 APPENDIX 1: LIST OF TOP TEN MFIS INCLUDED IN THE BENCHMARKING EXERCISE

**Table 23: List of Top Ten MFIs in terms of assets as on FY14 included for estimating industry benchmarks**

| Name of the MFI | Number of Borrowers as on FY14 | Asset Base as on FY14 | Regulatory structure (NBFC/Non NBFC) |
|---|---|---|---|
| **Cashpor Micro Credit - Section 25** | 655,557 | 490.52 | Non-NBFC |
| **Utkarsh Micro Finance** | 317,900 | 466.00 | NBFC |
| **Sonata Finance Pvt. Ltd.** | 280,197 | 453.80 | NBFC |
| **RGVN (North East) Microfinance Ltd.** | 166,623 | 148.82 | NBFC |
| **Annapurna Microfinance Pvt. Ltd.** | 158,684 | 97.16 | NBFC |
| **Sanghamithra Rural Financial Services - Section 25** | 110,736 | 96.30 | Non-NBFC |
| **Fusion Microfinance Private Limited** | 148,589 | 80.46 | NBFC |
| **Pahal Financial Services Pvt. Ltd.** | 45,590 | 73.16 | NBFC |
| **Sahayog Microfinance Ltd.** | 98,957 | 69.86 | NBFC |
| **Shikhar Microfinance Private Limited** | 28,100 | 23.36 | NBFC |

## 8.2 APPENDIX 2: SCORING SCALE DEVELOPED BASED ON BENCHMARKS

**Table 23: Scoring Scale for Impact Area 1: Building Institutional Sustainability**

| | | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| **Parameter 1: Ability to match or outgrow industry rates - pre and post IMEF funding** | Growth in Debt Funding | >50% | 40-50% | 25-40% | 15-25% | <15% |
| | Growth in Equity Funding | 25% or above | 15-25% | 10-15% | 5-10% | <5% |
| | Leverage ratio | 4 to 5 | 3 to 4 or 5-6 | 2 to 3 or 6-6.5 | 1 to 2 or >6.5 | <1 |
| | Growth in Managed Portfolio | >60% | 40-60% | 20-40% | 10-20% | <10% |
| **Parameter 2: Ability to reduce reliance on IMEF funding and other donor funding** | Percentage share of IMEF funding in total sources of funds | <10% | 10-20% | 20-30% | 30-50% | >50% |
| | Percentage share of IMEF Funding of total Tier 1 and Tier II Capital | <20% | 20-40% | 40-50% | 50-60% | >60% |
| | Percentage share of multilateral agencies borrowings in total funds | <5% | 5-15% | 15-25% | 25-40% | >40% |
| | Percentage share of bank and NBFC funding in total sources of funds | 60-70% | 50-60% or 70-75% | 40-50% or 75-85% | 30-40% or 85-95% | <30% or 95-100% |

| | | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| | Percentage share of market borrowings in total sources of funds | >5% | 1.5-5% | 1-1.5% | 0.5-1% | 0-0.5% |
| | Percentage share of securitisation funds to total sources of funds | 15-20% | 10-15% or 20-25% | 5-10% or 25-30% | 1-5% or 30-50% | 0% or more than 50% |
| **Parameter 3: Improvement in financial performance and profitability** | Cost of borrowings as a percentage of total borrowings | Less than 13% | 13-14% | 14-15% | 15-16% | >16% |
| | Securitisation income as a percentage of total on balance sheet portfolio | >5% | 1.5-5% | 1-1.5% | 0.5-1% | 0-0.5% |
| | Net Interest Margin as a percentage of total on balance sheet portfolio | 11-13% | 10-11% | 9.5-10% | 8.5-9.5% | Less than 8.5% or above 13% |
| | Other income as a percentage of total on balance sheet portfolio | Above 3 % | 2-3% | 1-2% | 0.5-1% | Less than 0.5% |
| | Provisions Coverage Ratio | >80% | 60-80% | 40-60% | 20-40% | <20% |
| | Operating Expenses as a percentage of total managed portfolio | below 9% | 9-10% | 10-115 | 11-12% | above 12% |

| | | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| | Operational Self Sufficiency Ratio | 120% and above | 110-120% | 105-110% | 100-105% | Less than 100% |
| | Financial Self-sufficiency Ratio | 105% and above | 100-105% | 90-100% | 85-90% | Less than 85% |
| | Capital Adequacy Ratio | 24-28% | 21-24% or 28-31% | 18-21% or 31-34% | 15-18% 0r 34-37% | 15% or less or above 37% |
| | Returns on Assets | above 2% | 1.5-2% | 1.25-1.5% | 0.75-1.25% | Less than 0.75% |
| | Return on Net Worth | Above 14% | 12-14% | 12-10% | 10-8% | Less than 8% |
| | Cash Position Indicator | 0.12-0.15 | 0.15-0.17 | 0.17-0.19 | .19-.21 | >0.21 and <0.12 |

**Table 23: Scoring Scale for Impact Area 2: Outreach and Lending Practices**

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| **Growth in disbursements** | >60% | 40-60% | 20-40% | 10-20% | <10% |
| **Growth in number of borrowers** | >30% | 20-30% | 10-20% | 5-10% | less than 10% |
| **Growth in managed portfolio** | >60% | 40-60% | 20-40% | 10-20% | <10% |
| **Growth in number of branches** | >25% | 20-25% | 15-20% | 10-15% | <10% |
| **Increase in number of state of operations** | 2 or more states | 1 state | 0 States | Decrease in operations by 1 State | Decrease in operations by 2 States |
| **Percentage share of branches that can be termed as underserved or un served** | 100% | 75-100% | 50-75% | 40-50% | Less than 40% |
| **Percentage share of poor customers** | 100% | 75-100% | 50-75% | 40-50% | Less than 40% |
| **Client Retention Rate (percentage of clients in the third credit cycle)** | >20% | 10-20% | 5-10% | 1-5% | <1% |
| **Trends in Scoring on Code of Conduct Assessments** | 5 | 4 | 3 | 2 | 1 |
| **Trends in MFI grading** | 5 | 4 | 3 | 2 | 1 |
| **Trends in qualitative assessment of their lending operations and adherence to industry benchmarks** | | 30 | 20-30 | 0-20 | |
| **Employee Turnover rates - Share of field officers/credit officers who have been employment of the MFI for more than two years as a % of total field officers/credit officers** | >40% | 30-40% | 20-30% | 10-20% | Less than 10% |
| **Average lending rate** | <25% | 25-27% | 27-29% | 29-30% | >30% |

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| **Level of Non-credit support to the customers (insurance products, social outreach etc.)** | 5 | 4 | 3 | 2 | 1 |

**Table 24: Scoring Scale for Impact Area 2: Operational Efficiencies**

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| **Operating expense per borrower** | 300-700 | 700-800 | 800-900 | 900-1000 | >1000 or <300 |
| **Percentage of branches computerised** | 100% | 80-100% | 50-80% | 30-50% | Less than 30% |
| **Advances per Credit Officer (Rs lakh)** | 50-60 | 40-50 or 60-70 | 30-40 or 70-75 | 20-30 or 75-80 | <20 or >80 |
| **Borrowers per Credit Officer** | 500-600 | 400-500 or 600-700 | 300-400 or 700-750 | 200-300 or 750-800 | <200 or >800 |
| **IT spend as a percentage of total revenue** | >1% | 0.6-0.7% | 0.5-0.6% | 0.2-0.5% | Less than 0.2% |
| **State of IT and MIS in the MFI** | 5 | 4 | 3 | 2 | 1 |
| **Training Spend as a percentage of total revenue** | 0.5% and above | 0.4-0.5% | 0.3-0.4% | 0.2-0.3% | Less than 0.2% |
| **Evaluation of level of understanding of employees of company's policies and procedures** | 30 | 25-30 | 20-25 | 15-20 | Less than 15 |
| **Observed compliance from the clients on on the field experience** | 30 | 25-30 | 20-25 | 15-20 | Less than 15 |
| **Administrative expense per borrower** | <200 | 200-250 | 250-300 | 300-350 | >350 |

| | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| **Operating expense per branch (Rs lakh)** | 10-15 | 15-20 or 8-10 | 20-25 or 4 - 8 | 25-30 or 2-4 | Above 30 or < 2 lakh |
| **PAR-30 days and movement in the ratio over the last three years on a quarterly basis-%** | 0-0.25% | 0.25-0.50% | 0.50-0.75% | 0.75-1% | 1% and above |
| **PAR-90 days and movement in the ratio and movement in the ratio over the last three years on a quarterly basis-%** | 0-0.25% | 0.25-0.50% | 0.50-0.75% | 0.75-1% | 1% and above |
| **Portfolio written off as a percentage of total owned portfolio/advances** | 0-0.25% | 0.25-0.50% | 0.50-0.75% | 0.75-1% | 1% and above |

## 8.3 APPENDIX 4: LIST OF LENDERS MET AND INTERACTED WITH DURING THE COURSE OF STUDY

| S.No. | NAME OF INSTITUTION | TYPE | LOCATION(RO, HO) |
|---|---|---|---|
| **1** | DiaVikas | Financial Institution | HO |
| **2** | Reliance Capital Ltd. | Financial Institution | HO |
| **3** | IndusInd Bank | Bank | HO |
| **4** | Ratnakar Bank | Bank | HO |
| **5** | ReligareFinvest Limited | NBFC | HO |
| **6** | DCB Bank | Bank | HO |
| **7** | IDBI Bank | Bank | HO |
| **8** | UCO Bank | Bank | HO |
| **9** | Central Bank of India | Bank | |
| **10** | MAS Financial Services Limited | Retail Finance Company | HO |
| **11** | IFMR Capital Finance Pvt Ltd. | Financial Institution | HO |
| **12** | Ananya Finance for Inclusive Growth Private Limited (FWWB) | Financial Institution | HO |

## 8.4 ACRONYMS

| | |
|---|---|
| AP | Andhra Pradesh |
| CAGR | Compound Annual Growth Rate |
| CoCA | Code of Conduct Assessment |
| CSR | Corporate Social Responsibility |
| FSS | Financial Self Sufficiency |
| FY | Financial Year |
| GoI | Government of India |
| GDP | Gross Domestic Product |
| IMaCS | ICRA Management Consulting Services Limited |
| IMEF | India Microfinance Equity Fund |
| MFI | MicroFinance Institution |
| MFIN | MicroFinance Institutions Network |
| NBFC | Non Banking Financial Company |
| NPA | Non Performing Assets |
| O/S | Outstanding |
| OCPS | Optionally Convertible Preference Shares |
| OSS | Operational Self Sufficiency |
| PAR | Portfolio at Risk |
| RBI | Reserve Bank of India |
| RoA | Return on Assets |
| RoE | Return on Equity |
| SHG | Self Help Group |
| SIDBI | Small Industries Development Bank of India |