THE CHANGING FACE OF MICROFINANCE IN INDIA

THE COSTS AND BENEFITS OF TRANSFORMING FROM AN NGO TO NON-BANK FINANCIAL COMPANY

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I. Introduction

It has been approximately 25 years since the birth of Microfinance with the Founding of the Grameen Bank in Bangladesh by Professor Mohammad Yunus. The field has since spread with the adaptation and evolution of Professor Yunus' ideas to various countries and contexts. The UN Year of Microcredit in 2005 indicated a turning point for Microfinance as the private sector began to take a more serious interest in what has been considered the domain of NGOs. However, with all the excitement about the prospects of the field to contribute to poverty alleviation and the integration of the world's poor into the rapidly evolving global market system, the Consultative Group to Assist the Poorest (CGAP) estimates that microfinance probably reaches fewer than 5% of its potential clients[1]. Although this is a very rough estimate of those not reached by formal financial institutions, it might serve to provide a general idea of what share of the potential clients of microfinance have yet to be reached. India is home to a growing and innovative sector of microfinance. With a large portion of the world's poor, India is likely to have a large potential demand for microfinance. For this reason, It makes sense to consider the changing face of microfinance in India, in order to shed light on comparable changes in the field all over the world.

The overarching question this study looks to answer in the interests of greater impact and outreach of microfinance in India is: What are the costs and benefits of a Microfinance NGO of transforming to a Non-Bank Financial Company (NBFC)? More specifically, how does organizational form affect a Microfinance Institution's ability to

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[1] *Regulation & Supervision of Microfinance Institutions*. CGAP Focus No. 4, August 1996 (Accessed March 2006); available from: http://www.cgap.org.

achieve success both by financial and social standards? By taking a closer look at three cases of transformation to or start up as an NBFC, we can better understand the intricacies, challenges, successes, and opportunities for microfinance delivery of independent MFIs in India. In looking at three MFIs in India, we might expect to see several benefits of transformation from an NGO to an NBFC. These include greater profitability in order to handle being a regulated financial company and attract commercial funds, greater access to more diverse sources of funding including equity and debt from commercial banks, greater outreach due to larger loan portfolios, and greater efficiency due to the pressure to lower costs to improve profitability. We might also worry that the pressure to become profitable might lead MFIs to target better off borrowers, offer fewer products and services, and therefore inadvertently lower their poverty impact. Lastly, we might also expect to see a loss in the flexibility to innovate and test products that NGOs tend to have if the MFI becomes a regulated entity with more legal restrictions. The purpose of the case studies will then be to explore whether the experiences of the three MFIs chosen conform to these expectations.

. Some subsidiary questions that arise when considering a cost benefit analysis of Indian NGOs transforming to Non-Bank Financial Companies (NBFCs) are: What constitutes sustainable microfinance? And, is private commercial funding the most effective vehicle for growth in microfinance? In order to assess the costs and benefits of NGOs transforming to NBFCs, this study focuses on case studies of three of the largest independent Microfinance Institutions (MFIs) in India: SHARE Microfin, BASIX Finance, and SKS, which have all chosen to transform to or become Non-Bank Financial Companies (NBFCs). SHARE, SKS, and BASIX are useful case studies not only because they have all made the transformation from an NGO to an NBFC, but they are also sufficiently different in their experiences with microcredit delivery, client focus, and organizational evolution. BASIX employs a hybrid model of microcredit delivery which emphasizes the combined delivery of financial services, technical assistance, and agricultural business development services and does not specifically target women. SHARE and SKS, on the other hand, employ the Grameen Bank model of microcredit delivery which specifically targets women and focuses mainly on microcredit. While BASIX showed an early commercial orientation in its operations, SHARE and SKS followed a more common path in microfinance, that of an NGO, and only recently made the decision to transform to an NBFC. The comparison between these organizations is useful in documenting different paths towards transformation and thus, providing a more robust picture of the costs and benefits of such a process to Indian MFIs.

In order to perform a cost benefit analysis of the selected MFIs, a set of metrics for the measurement of successful and sustainable credit delivery have been compiled with the help of industry rating sources. These metrics will be divided into categories of financial impact, strategic strength, and social impact and are used in order to evaluate the relative success in credit delivery of the three microfinance organizations studied.

II. Chapter 1: Microfinance in India

An understanding of India's poverty, economy, and growth helps in making informed statements about the commercialization of microfinance and its impact on microfinance outreach in India. This sets the stage for defining microfinance and analyzing the costs and benefits of a more commercial model of microfinance delivery. A more in-depth look at the country's financial sector and its regulation provides the context within which microfinance has evolved and outlines its constraints. This section then focuses on providing a summary of the wealth of information on India and the evolution of its financial sector in order to set the context within which to better analyze SHARE, SKS, and BASIX.

1. India

1.1 Economy

Home to 1.1 billion people as of 2004, India constitutes approximately one sixth of the world's total population. It is the world's largest democracy and a key emerging market alongside China and Brazil. India is the world's tenth largest economy with a gross domestic product in 2004 of US$692 billion as reported by the World Bank. The country's growth is also strong, with real GDP growing in by 6.9% in 2004/2005 and exports growing by 105% during the same period[2]. The picture presented shows an environment where wealth is increasing for the nation but it is not accruing to all citizens. Microfinance is one development approach that can contribute to achieving the national and international goal of improving the livelihoods of those Indians that are not yet seeing the benefits of growth.

1.2 Poverty

Part of understanding the costs and benefits of various organizational forms of MFIs, involves understanding the overarching goal that motivates most MFIs: poverty reduction. The way microfinance impacts overall poverty reduction in a given country is

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[2] *The World Bank in India*. World Bank Country Brief, July 2005 (Accessed on 02/16/2006); available From: http://www.worldbank.org.

then shaped by the nature of poverty in that country. India has over a quarter of its population below the poverty line. The World Bank reports that India is still home to some 260 to 290 million poor, numbers that rise to 390 million if poverty is measured by the international standard of those living on less than US$1 dollar a day. Almost half of India's poor, approximately 133 million, are concentrated in three states: Uttar Pradesh, Bihar, and Madhya Pradesh. Rural areas in India are home to three quarters of India's poor which is strengthened by the increasing urban/rural disparities.[3] There are substantial disparities within the country as the gulf between the rich and poor widens. The Indian government's poverty reduction strategy focuses on infrastructure, social development (especially education and health), and rural livelihoods. The improvement of rural livelihoods is the aspect of poverty reduction that MFIs focus on. This study then looks at how the organizational structure of MFIs contributes to their ability to improve rural livelihoods.

2. Microfinance Defined

For the purposes of this study microfinance can be defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low-income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing.

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[3] *The World Bank in India*. World Bank Country Brief, July 2005 (Accessed on 02/16/2006); available From: http://www.worldbank.org.

A large variety of actors provide microfinance in India, using a range of microfinance delivery methods. Since the founding of the Grameen Bank in Bangladesh, various actors have endeavored to provide access to financial services to the poor in creative ways. Governments have piloted national programs, NGOs have undertaken the activity of raising donor funds for on-lending, and some banks have partnered with public organizations or made small inroads themselves in providing such services. This has resulted in a rather broad definition of microfinance as any activity that targets poor and low-income individuals for the provision of financial services. The range of activities undertaken in microfinance include group lending, individual lending, the provision of savings and insurance, capacity building, and agricultural business development services. Whatever the form of activity however, the overarching goal that unifies all actors in the provision of microfinance is the creation of social value. Microfinance is therefore defined as much by form as by intent of the lender or financial service provider.

3. The Evolution and Regulation of Microfinance in India

A complete understanding of the evolution and nature of a country's financial system, regulation, and government attitude toward the sector is integral to understanding the nature of microfinance in any particular country. Such knowledge allows one to understand what forces shape its growth and what factors constrain it. Understanding the nature of microfinance regulation is especially important to assessing the costs and benefits of transforming from and NGO MFI to an NBFC MFI because regulation outlines the nature of some of those benefits and costs while also providing the legal basis for the different types of legal form a MFI can take.

The World Bank has called South Asia the "cradle of microfinance." Statistics indicate that some 45% of all the people in the world who use microfinance services are living in South Asia. However, the overall percentage of the poor and vulnerable people with access to financial services remains small, amounting to less than 20 % of poor households in India. The World Bank estimates that more than 87% of India's poor cannot access credit from a formal source and therefore they are not borrowing at all or have to depend on money-lenders who charge them interest rates ranging from 48% to 120% per annum and sometimes much higher.[4] This demonstrates that there are potential clients for microfinance in India, depending on the level of demand for financial services, from those poor without access to it. The provision of such services, if done correctly, could have a significant impact on the poor. This fact alone is very compelling and is reason enough to occupy oneself with the careful questioning of how microfinance can be provided to as many of the poor with a demand for it as possible. Integral to this questioning is the purpose of this study, understanding the costs and benefits of providing microfinance in the form of a financial company rather than an NGO.

With nearly 400 million people in India below or just below an austerely defined poverty line, approximately 75 million households are potential clients of MFIs. Of these, nearly 60 million are in rural India, the remaining 15 million being urban slum dwellers. We are then curious about the penetration of India's formal financial system thus far in order to understand the depth of outreach. Understanding the depth of the formal financial system is what drives the purpose of considering the benefits and costs to NGOs

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[4] *Year of Micro-credit Conference: Microfinance can be the biggest instrument in the fight against poverty, says Bank Vice President.* The World Bank Group, Dec. 5 2005 (Accessed 02/16/2006); available from http://www.worldbank.org.in.

of becoming NBFCs. How might NGOs and NBFCs approach this market differently? What in their organizational and legal structure positions them better or worse to increase their impact in this market? Understanding the outreach of the formal financial systems provides the necessary information for answering these questions.

In 1999/2000, financial assets in India amounted to about US$430 billion in nominal terms as reported by a 2005 World Bank report, compared to US$250 billion in Argentina and US$386 billion in Mexico. However, India had a lower per capita income in 1999 of U.S. $440 compared to Mexico's $4,440 and Argentina's $7,550[5]. With a per capita income in 2004 estimated at US$620, India still ranks among the poorest countries in the World[6]. Historically, credit to the poor in India was viewed as a government program that required large amounts of subsidy. This has changed somewhat in that the trend has been a move towards more commercial forms of financing. This trend has been the product of a long evolution of the financial sector, which can be characterized by three major events.

The first of these pivotal events was Indira Gandhi's bank nationalization drive launched in 1969 which required commercial banks to open rural branches resulting in a 15.2% increase in rural bank branches in India between 1973 and 1985. Today, India has over 32,000 rural branches of commercial banks and regional rural banks, 14,000 cooperative bank branches, 98,000 primary agricultural credit societies (PACs), and 154,000 postal outlets that are required to focus on deposit mobilization and money transfers. India's deep financial system is attributable to its vast network of financial

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[5] Basu and Srivastava, "Scaling-up Microfinance for India's Rural Poor," *World Bank Policy Research Working Paper 3646*, June 2005. Accessed Jan. 2006. Available from: http://www.worldbank.org

[6] India Data Profile, World Bank Group. Accessed: February 2006. Available from: http://worldbank.org.

institutions. The average population served per commercial bank branch in India in 2002, 15,000 people, compares favorably with other developing countries. Unfortunately, the World Bank indicates that no official survey of rural access to finance has been conducted since 1991 but the World Bank NCAER RFAS-2003 allows for analysis of some trends between 1991 and 2003.[7] Following bank nationalization, the share of banks in rural household debt increased to approximately 61.2% in 1991.[8] Despite these achievements, there still has been little progress in providing the rural poor with access to formal finance. Rural banks serve primarily the needs of richer rural borrowers with some 66% of large farmers having a deposit account and 44% with access to credit in contrast to 70% of marginal/landless farmers that do not have a bank account and 87% that are without access to credit. Access to other financial services such as insurance are even more limited for the rural poor.[9]

The second national policy that has had a significant impact on the evolution of India's banking and financial system is the Integrated Rural Development Program (IRDP) introduced in 1978 and designed to be 'a direct instrument for attacking India's rural poverty.' This program is interesting to this study because it was a large program whose main thrust was to alleviate poverty through the provision of loans and it was considered a failure. It therefore provides a comparison of what has failed in the past and how this affects the provision of microfinance through private means today. The IRDP was reputed as one of the largest poverty alleviation programs in the world with the number of loans advanced since its inception having reached approximately 45 million

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[7] (Basu and Srivastava, pg. 5)
[8] (Basu and Srivastava, pg. 4)
[9] (Basu and Srivastava, pg. 5)

Indians with financial assistance worth US$6.17 billion disbursed.[10] Despite the massive support for the IRDP however, a government evaluation in 1989 revealed that it had not achieved the expected results with only 28 % of those assisted under the IRDP crossing the poverty line in contrast to private-sector-led services and business micro-enterprises which performed better with 33 % of those involved in the sector that crossed the poverty line. According to the Indian government, the main factors contributing to the program's poor performance were loose targeting, bureaucratic delivery systems resulting in high transaction costs, unsuitable financial products ill suited to the needs of the poor, poor coordination of program support, and political tolerance of loan defaults resulting in extremely poor loan recovery performance.[11] The problem with targeting that the government identified was that the subsidy orientation of the scheme created a huge temptation for the non-poor to participate in the program by dishonest means. There was no effective mechanism for enforcing the selection of the poor clientele based on the official 'poverty line.' The means through which the IRDP endeavored to provide the poor with access to productive assets was credit advanced by commercial banks which the government subsidized. The subsidy provided by the government varied from 25% for small farmers to 50% for scheduled castes and tribal people. The overarching goal of the program was to enhance the income of the rural poor sufficiently so as to enable them to cross the poverty line.[12] Therefore, by this standard the IRDP did not achieve its expected results.

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[10] Editors Remenyi and Quinones, *Microfinance and Poverty Alleviation: Case Studies from Asia and the Pacific* (New York: Pinter, 2000), pg. 86.
[11] (Remenyi and Quinones, pgs. 86-87)
[12] (Remenyi and Quinones, pg. 87)

The last major event which impacted the financial and banking system in India was the liberalization of India's financial system in the 1990s characterized by a series of structural adjustments and financial policy reforms initiated by the Reserve Bank of India (RBI). The result was a partial deregulation of interest rates, increased competition in the banking sector, and new microfinance approaches of which the most notable was a movement to link informal local groups called self-help groups (or SHGs) created by NGOs to commercial banks like the National Bank for Agriculture and Rural Development (NABARD). These financial policy reforms in the 1990s were very significant to microfinance because they involved scrapping the interest rate controls for credit to the poor and other types of credit. These financial liberalization measures then made it possible for NABARD to transform what was then a small research project into a full blown microfinance program for the whole country.

This program was better known as the 'SHG Bank Linkage' model which has come to be one of the most well known and widespread microfinance models in India.[13] Since many consider the SHG Bank Linkage model of microfinance to be one of the major successes of microfinance delivery in the country it will provide the most important direct contrast to the delivery of microfinance services by individual MFIs. The number of women's SHGs linked to banks was reported at 800,000 in 2004 by the World Bank. The rough estimate of women reached was about 12 million. Originally, NABARD provided subsidized refinancing to encourage banks to lend to SHGs, although the demand declined as banks began to discover that SHG lending is quite profitable. Banks would lend to SHGs at about 12% per annum and groups would on-lend to individual

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[13] (Remenyi and Quinones, pg. 92)

members at a rate they determine, typically this would be around 24% per annum.[14] The hypothesis for why individual MFIs not reached as many poor as the SHG Bank Linkage program has been that individual MFIs have been constrained mainly due to lack of resources and capital. Another important point to consider is that the SHG bank linkage model is dependent on the formation of SHGs, something that in India has been done by NGOs and therefore requires subsidy. This provides a helpful separation of activities that require subsidy, the creation of SHGs, and those that can operate on a commercial basis such as bank lending to those SHGs.

The focus of this study is on organizations that have microfinance at the core of their operations, even if they may be diverse in their operational organization and orientation. The main forms of legal status or organizational forms used by microfinance institutions in India are non-governmental organizations (NGOs), Non-Bank Financial Companies (NBFCs), Local Area Banks (LABs), Cooperative Societies under the cooperative society act, and Public Societies/Trusts. The oldest microfinance institutions (MFIs) in India are the cooperative networks while the newer entrants are Grameen replicators such as SHARE.

According to the World Bank, the major challenges to the successful provision of microfinance in India can be summarized as improving governance, professionalizing management, improving internal transparency, lowering costs, better targeting of the poor, expanding beyond credit to meet the diverse needs of borrowers, and a better financial infrastructure in order to scale up.[15] The question of interest here is whether the

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[14] (Basu and Srivastava, pg. 12)

[15] (Year of Micro-credit Conference: Microfinance can be the biggest instrument in the fight against poverty, says Bank Vice President)

transformation from an NGO to and NBFC helps or hinders an MFI's ability to meet these challenges, something that is explored in the case studies following.

4. Regulatory Framework

The financial regulatory framework in a given country can have a huge impact on even the viability of microfinance. The forms of legal organization an institution has available to them, registration requirements, interest rate caps, capitalization, etc. are all determined by the legal framework or lack thereof. Although Microfinance regulation is still a heavily debated topic and is not yet well understood, it is integral to any study that endeavors to understand the costs and benefits of different institutional forms.

4.1 Legal basis for Regulation

Banks in India are regulated and supervised by the Reserve Bank of India (RBI) under the RBI Act of 1934, Banking Regulation Act, Regional Rural Banks Act, and the Cooperative Societies Acts of the respective state governments for cooperative banks. NBFCs are registered under the Companies Act, 1956 and are governed under the RBI Act. There is no specific law catering to NGOs although they can be registered under the Societies Registration Act, 1860, the Indian Trust Act, 1882, or the relevant state acts. There has been a strong reliance on self-regulation for NGO MFIs and as this applies to NGO MFIs mobilizing deposits from clients who also borrow. This tendency is a concern due to enforcement problems that tend to arise with self-regulatory organizations. In January 2000, the RBI essentially created a new legal form for providing microfinance services for NBFCs registered under the Companies Act so that they are not subject to any capital or liquidity requirements if they do not go into the deposit taking business.[16] Absence of liquidity requirements is concern to the safety of the sector.

4.2 Regulation & Constraints on NGO MFIs

One of the main constraints of NGO-MFIs is the ability to mobilize deposits in order to diversify their funding sources and grow. This constraint stems from the RBI Act which states that no unincorporated bodies are allowed to accept deposits from the public. Therefore, the right to collect deposits from the general public is restricted to regulated institutions, and only cooperatives and NBFCs are subject to prudential regulations.[17] This means that NGO-MFIs may collect deposits only from their members, but are not subject to prudential regulation. Greater supervision of NGO-MFIs has therefore been recommended in the interests of protecting small savers, ensuring proper terms of credit and financial discipline, and the institution of a proper reporting system. The concern over protecting small savers stems from the fact that it is legal for NGOs to mobilize savings from their clients but not the greater public, which requires a bank license.[18] MFIs not mobilizing savings but only lending are and may only be required to provide periodic statements of financial operations after their initial registration. Microfinance activities of NGO-MFIs are not expressly stated as one of the "charitable purposes" in the pre-amble to the Societies Registration Act. Therefore, the carrying out of lending activities and charging interest could easily lead to the denial of charitable status,

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[16] Bhattacharjee, B.R. and Staschen, Steven, "Emerging Scenarios for Microfinance Regulation in India: Some Observations from the Field," (Eschborn: GTZ, 2004). Accessed 03/30/2006. Available from: http://www.gtz.de. p. 7.

[17] (Bhattacharjee, B.R. and Staschen, Steven, p. 20)

[18] (Bhattacharjee, B.R. and Staschen, Steven)

although this has not widely happened as of yet.[19] Therefore, a major concern for NGOs that might affect their decision to transform to an NBFC is the loss of charitable status which entitles them to a tax exemption on interest collected. Lastly, NGOs face the regulatory constraint of not being able to receive shareholder contributions, leaving them with the options of donor and government funds.[20]

4.3 Requirements for operating as an NBFC

The transformation from NGO to NBFC is difficult when the minimum start-up capital requirement for registering as an NBFC being Rs20 million or US$450,000, often too large an amount for most NGO MFIs.[21] The main problem with the minimum capital requirement is that MFIs are restricted to bringing in the capital as fresh money, meaning that NGOs are not allowed to invest capital in a non-charitable institution[22]. This restriction makes transformation more difficult and might be the reason we mainly see transformation of large NGO MFIs with better access to capital.

Along with the minimum capital requirement for a license, another major regulatory constraint that NBFCs face is the restriction on foreign equity investments. NBFCs face a foreign equity investment ceiling of 51% and a minimum equity amount of US$ 500,000. This restriction has impeded equity contributions to microfinance NBFCs by foreign investors. Lastly, for all MFIs there is a strong concern that interest rate caps can be introduced by state governments under existing state legislation.[23] The introduction of

[19](Bhattacharjee, B.R. and Staschen, Steven, p. 18)
[20] (Bhattacharjee, B.R. and Staschen, Steven, p. 18)
[21] (Basu and Srivasta, pg. 14)
[22](Bhattacharjee, B.R. and Staschen, Steven, p. 19)

[23] (Bhattacharjee, B.R. and Staschen, Steven, 17-21)

interest rate caps for any MFI, but especially NBFCs which need to generate a profit, could prohibit ongoing operations if the imposed interest rate cap does not cover the cost of lending. All of these issues impact the decision an MFI makes when it decides to transform from an NGO to an NBFC because they represent benefits and costs to transformation.

II. Chapter III: Methodology for Case Study Analysis

One of the most interesting and important evolutions in microfinance is the growing resource of analytical tools and financial information available. Since some MFIs have started to transform into a specialized type of bank or company such as an NBFC in India, many of these tools are analytical tools often used in commercial banking or finance. However, since MFIs often have social impact or poverty alleviation as a critical component of their mission, the proper analysis of MFIs is a marriage of traditionally used methods of assessing commercial banks as well as poverty impact assessment methods used in the development field. This section develops some basic indicators from industry sources of the financial, strategic, and social strength of an MFI in order to help in the process of identifying both the financial and social benefits and costs to an MFI in India of becoming an NBFC. These indicators are then used in analyzing the credit delivery models of SHARE, BASIX, and SKS.

1. Defining Success in Microcredit

Microfinance delivery can vary widely in method as well as social and economic benefits produced; therefore, each analyst will look at different factors in determining its success. Opinions regarding the relative importance of the various benefits and costs will differ, implying that no single measure of "success" in the delivery of microfinance will be appealing to all analysts. Thus in comparing the performance of diverse institutions, this thesis will employ a broad range of measures of impacts and costs, including both measures that are popular in the literature, and some additional measures. In particular, the measures seek to highlight the practices that best enable a microfinance institution to provide services to poor clients in a manner that is financially sustainable, meaning continuing access to funds, and that creates social value. Financial measures highlight the financial and operational viability of an MFI by focusing on measures of efficiency and profitability while social and organizational measures focus on the nature of management, vision, target market, management of human resources, focus, product availability, etc. A cost/benefit analysis of each organization is done as well as a comparison between organizations.

The goal for this process is to understand the changes in each organization's financial, strategic, and social impact after transformation in order to identify specific benefits and costs of transforming to an NBFC. Doing this involves understanding the differences across MFIs in what they consider their priorities and what constitutes success, especially with regards to what segment among the poor they are reaching. It will be especially important to understand not only the differences in contextual constraints that each MFI faces but also what program design and organizational details help them achieve their goals in the specific context they face and how these are affected by becoming NBFCs. Lastly, the goal is to understand what nature of constraints the MFIs are facing in order to determine how institutional form might contribute to overcoming these constraints. The indicators compiled assist in doing this by identifying the mission of each MFI, the challenges it faces to fulfilling that mission, as well as a financial and social assessment of its success in achieving it. Once this is done, a closer look can be taken as to how institutional form has contributed to the success or failure of each MFI.

2. Microfinance Rating Efforts

Various institutions have already developed a body of knowledge on how to analyze microfinance institutions and compare them. The metrics used in this study have drawn from this body of knowledge in order to develop a system with which to analyze the costs and benefits of each MFI. Alone, these metrics do not provide a complete picture, as their focus is primarily financial and strategic and they are most commonly used to help the donor community evaluate investments in MFIs. Therefore, they leave out an assessment of the social value created by the MFI, making it important to also look social indicators and outreach per MFI to understand the complete picture. In addition to metrics drawn from these industry sources, this study will look at social impact indicators and other qualitative indicators in order to better provide an understanding of the costs and benefits of NGOs and NBFCs.

Rating System	Developed By	Areas of Focus
CAMEL[24]	ACCION	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity Management.
Giraffe method[25]	Planet Ratings	Governance, information, risk

[24] *ACCION CAMEL Rating System* (Accessed 01/14/2006); available from http://gdrc.org/icm/rating/.

		management, activities and services, financing and liquidity, and efficiency and profitability.
MicroRating[26]	MicroRate	Management and Governance, MIS, Financial Conditions, Credit Operations, and Portfolio Analysis.

3. Institutional Goals

Broadly, institutional goals and missions differ across three types of microfinance institutions: social enterprise, social organization, and commercial entity. "Social enterprises" seek both financial returns and social impact while social organizations seek primarily social impact and commercial entities seek primarily financial returns. One cannot do a cost/benefit analysis or comparison of microfinance institutions without taking into account what the key value proposition of each organization is. Therefore, part of the evaluation of institutional form will include the degree to which each organization has achieved its mission and how well its operations have aligned with that mission. In comparing impacts across diverse institutions, then, we must examine both social impact and financial returns, but we must remain conscious that individual organizations will place different weight on these two sets of measures when drawing conclusions about their own success.

4. Financial Return Objectives

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[25] *Giraffe Method, Planet Ratings* (Accessed 01/14/2006); available from http://www.planetfinance.org/EN/ngo-activities-microfinance/micro-finance-rating.php

[26] *Microrate* (Accessed 02/25/2006); available from http://www.microrate.com/ENGLISHsite/ABOUT/aboutf.htm.

In order to achieve its mission, an MFI needs to exhibit a degree of financial soundness that will allow it to sustain its operations into the future in order to continue to deliver its services and achieve its desired social impact. A basic financial analysis is then part of the evaluation process of an MFI. A set of ratios and indicators have been compiled from industry sources in order to aid in putting together a picture of each MFI. Some of these ratios are commonly used ratios in financial analysis of publicly held companies while some are more specific to banking and microfinance. While they provide a concrete picture of the MFI's operations they do not provide a complete picture of the MFI's impact. It is necessary to complement these financial ratios with a study of strategic and social impact indicators to get a more holistic picture of the MFIs and compare them.

5. Metrics

Having defined within the context of this study on what basis each microfinance organization will be evaluated, a description of the metrics used in the analysis follows. The fact that the organizations chosen operate in the same country provides a context within which they are more easily compared and contrasted. An ideal set of metrics would include a blend of good financial and social impact indicators in order to give a sense of the full range of costs and benefits an NGO incurs when it transforms into an NBFC. However, it became evident during the process of compiling indicators for this study that a robust set of social indicators that give at least a minimum platform from which to compare MFIs has not yet been created. This has made the process of identifying the social impact of MFIs in any meaningful way, whether they are NGOs or

NBFCs, very difficult. Therefore, while the financial indicators we have give us a relatively good sense of the financial success of an MFI, we have a very limited and superficial sense of the social impact both of an NGO before transforming as well as the social impact of an NBFC. At a minimum, we would like to see an MFI's impact on the income of its clients based upon different categories of poverty. Therefore, we would like to see defined categories of 'poverty' within those individuals that fall below a nationally defined poverty line. Categories such as "Very Poor," "Moderately Poor," and "Vulnerable" would give a much richer picture of both the market served as well as the degree of poverty alleviation each MFI has. We would then like to see information on the changes in income levels of such clients over time. Unfortunately, this information can be very time consuming and difficult to gather, likely requiring extra time and careful information gathering on the part of field officers or customer service agents. It may be hard to justify to the Shareholders of an NBFC the expense to the company of gathering such information. Thus, the social impact indicators compiled for this study are found to be inadequate in giving a full picture of the social impact of these MFIs. They represent a very rough sense of the social impact of an MFI and provide evidence that there is still progress to be made on quality of social impact analysis available in the field.

5.1 Financial Indicators[27]

Financial Indicator	Calculation	Information Source
Operating Efficiency		
Operating Expense Ratio	Operating Exp. /Avg. Gross Loan	Audited Financial Statements

[27] Editor Tillman Bruett, "Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring," Micro Tool, Accelerated Microenterprise Advancement Project (AMAP), 2006, pp. 91-111. Available from: http://www.microLINKS.org.

	Portfolio	
Cost Per Active Client	Operating Exp./Avg # Clients	Audited Financial Statements & Annual Reports
Active Client per Staff Member	# of Active Clients/Total # of Personnel	Annual Reports
Loan Loss Protection		
Total # of Shareholders	Total # Shareholders	Annual Reports
Growth		
Loan Portfolio Growth	(Current Year Loan Portfolio/Previous Year Portfolio) -1	Audited Financial Statements, Mix Market Rating Reports
Net Income Growth	(NI Previous Year/NI Current Year) – 1	Audited Financial Statements
Capital Adequacy		
Leverage (Debt/Equity Ratio)	Debt/Shareholder's Equity	Audited Financial Statements
Portfolio Quality		
Portfolio at Risk (PAR)	(PAR > 30 days + value of renog. Loans/Gross Loan Portfolio)	Company Data, Audited Financial Statements, Mix Market rating reports
Write-off Ratio	Value of loans written off/ Avg Gross loan portfolio	Audited Financial Statements, company data
Capital Formation Rate	Chg. In Retained Earnings/ Previous year Equity	Audited Financial Statements
Sustainability & Profitability		
Return on Equity	(Net Op. Income – Taxes)/Avg. Equity	Audited Financial Statements
Return on Assets	Net Op. Income – Taxes)/Avg. Assets	Audited Financial Statements
Net Interest Margin	Interest Income – Interest Expense	Audited Financial Statements
Net Operating Income	(Before & After donor funds)	Audited Financial Statements
Institutional Capital	Institutional Capital	Annual Reports
Operating Self Sufficiency	(Financial Exp. + Impairment Losses on loans + Operating Expense)	Company Data, Mix Market Rating Reports, Audited Financial Statements

Operating Efficiency

I. *Operating Expense Ratio*: (Operating Expenses / Avg Gross Loan Portfolio)

The Operating Expense Ratio highlights personnel and administrative expenses relative to the loan portfolio and is the most commonly used efficiency indicator. The Operating Expense Ratio allows managers to compare quickly administrative and personnel expenses to the MFI's yield on the gross portfolio. For this reason it is frequently referred to as the *Efficiency Ratio*. The lower the operating expense ratio, the more efficient the MFI. Thus, MFIs should strive to have a downward trend in this ratio even when portfolio growth is flat. While this ratio may fluctuate from month to month, it should decline from year to year.

Ii. *Cost per Active Client*: (Operating Expense / Avg Number of Active Clients)
This metric provides a meaningful measure of efficiency for an MFI, allowing it to determine the average cost of maintaining an active client. The indicator tells in very concrete terms how much an institution currently spends in Personnel and Administrative Expenses to serve a single active client. Thus, it also informs the MFI how much it must earn from each client to be profitable. The ratio is particularly helpful for comparing across institutions because the loan size is not part of the calculation. It is also valuable to compare with the local per capita GNI because it is a very rough proxy for labor costs in the local market. This allows the MFI to tell whether a reduction in cost per client is due to a reduced cost of labor or more efficient use of labor.

Iii. *Active Clients per Staff Member*: (Number of Active Clients / Total Number of Personnel)
This ratio is defined as the overall productivity of the MFI's personnel in terms of managing clients, including borrowers, voluntary savers, and other clients. Since MFIs may want to create caseload targets for loan officers, this ratio is an easy and effective way to measure progress against such targets. The ratio will increase until it reaches the optimal range and plateau, but plateaus can be surpassed through

structural or technological changes. The ratio should also be evaluated in light of portfolio at risk to ensure that productivity gains are not at the expense of asset quality.

Loan Loss Protection

I. *Number of total Shareholders*.

The number of total shareholders is of interest especially to investors as it is a measure of the risk to any one shareholder investing in the MFI. How many other investors are there to spread the risk of the MFI? It might also be an indication of the quality of the MFI, if the MFI has a number of shareholders it might be an indication of the ability of the MFI to raise funds and attract investors.

Growth

I. *Loan Portfolio year over year*

This is a basic percentage measure of whether the loan portfolio of the MFI is growing from year to year. This gives an idea of the MFI's ability to expand and reach more clients. Growth of the loan portfolio needs to be considered in light of portfolio quality as growth with declining portfolio quality is of concern.

iii. *Net Income year over year*

Another basic percentage measure of whether an MFI is growing its profits through its operations and generation of loan revenue. It is a basic indicator that an MFI is on the right track but should be considered only along with other key indicators of profitability, efficiency, and portfolio quality.

Capital Adequacy

I. *Leverage* (Debt/Equity Ratio)

The Debt to Equity ratio measures the relationship between the risk-weighted (debt) assets of the MFI and its equity. It indicates how much of a safety cushion the institution has to absorb losses before creditors are at risk. It also shows how well the MFI is able to leverage its equity to increase assets through borrowing. It is usually an important ratio for investors and lenders and different industries will have different benchmarks for debt to equity. The commercial banking sector has some of the highest levels of debt to equity as their primary business is lending. However, since microfinance is a slightly different type of lending, commercial debt to equity ratios are not really a good comparison. The MicroBanking Bulletin put out by CGAP at the World Bank provides benchmarks for MFIs. Depending on the capitalization and loan portfolio of the MFI, average debt to equity ratios range from 130% to 540% depending on the size and target market of the MFI[28] The Debt to Equity ratio should be compared against these industry benchmarks to give an idea of the risk of the MFI due to its degree of debt. An MFI must be wary of borrowing more than it can repay in times of trouble.

Portfolio Quality

Portfolio quality is important to the financial success of any microfinance institution. Drops in portfolio quality could be an indication of decline in customer satisfaction and thus a low retention rate. It could also signal problems in staff supervision and control if it is the result of poor staff performance. Whatever the case, poor asset quality will result in additional costs and lower income.

I. Portfolio at risk (PAR): measures the portfolio past due over 30 days

[28] (Editor Tillman Bruett)

(PAR > 30 Days + Value of Renegotiated Loans / Gross Loan Portfolio)

PAR is the most accepted measure of portfolio quality since the primary asset of an MFI is its gross loan portfolio. The most common international measurements of PAR are > 30 days and > 90 days. PAR is important because it indicates the potential for future losses based on the current performance of the loan portfolio. PAR is the most widely accepted measure of loan performance in the microfinance industry. The Ratio also includes renegotiated loans which prevents hiding troubled loans through rescheduling or refinancing and indicates a higher level of risk associated with clients that have had repayment problems. When referring to PAR, the number of days should always be specified. For the purpose of this study PAR > 30 days, the most common measure, will be used for all MFIs. PAR should be low and fairly stable for an MFI.

ii. *Write-off Ratio*: (Value of loans written off / Avg Gross loan portfolio)

The Write-off Ratio provides an indication of the past quality of the Gross Loan Portfolio. Write-offs are the greatest threat to an MFI because they result in a reduction in the MFI's assets and its current and future earning potential. A high ratio may indicate a problem in the MFI's collection efforts. Write-offs are an accounting device to remove persistently delinquent loans from the books; this ratio is highly dependent on an MFI's write-off policy.

Iv. *Capital Formation Rate* (ΔRE / Previous yr equity)

The capital formation rate is a rough estimate of how fast the company is creating equity for itself from retained earnings each year. A higher capital formation rate is good. This figure is important to investors who are interested in equity growth. For microfinance, it is useful in giving an indicator of the creation of financial value. It gives an indication of whether the MFI is growing its own capital. It is important to note that this figure only captures the creation of equity capital for the firm and will ignore any other forms of access to capital an MFI has. Therefore, it useful in conjunction with a broader picture of the sources of capital an MFI has.

Sustainability & Profitability

Profitability and sustainability ratios in traditional financial analysis reflect the ability of the MFI to cover its operations and grow in the future using its own funds. Most MFIs are striving for some level of greater financial independence, whether they are non-profit or for-profit.

I. *Return on equity (ROE)*: ((Net Operating Income – Taxes) / Average Equity)

Return on Equity is one of the most commonly used financial indicators for publicly held companies and therefore, for commercial for-profit MFIs it is the most important profitability indicators. ROE measures an MFI's ability to reward shareholders' investment, build its equity base through retained earnings, and to raise additional equity investment. For a non-profit MFI, ROE shows its ability to build equity through retained earnings, and increased equity enables the MFI to leverage more financing to grow its portfolio. By excluding donations and non-operating revenues, ROE demonstrates an institution's ability to generate income from its core financial service activity. ROE tends to fluctuate more than Return On Assets (ROA), defined below., and thus monthly measurements can be misleading. However, managers should look for a positive trend over several years and a similar or better ratio than competitors'.

Ii. *Return an Assets (ROA)*: (Net Operating Income – Taxes / Average Assets)
Return on Assets is a measure of the productive use of the company's assets rather than the productive use of a firm's equity in the case of ROE. ROA is different than ROE in that it measures profitability irrespective of the institution's underlying funding structure and doesn't discriminate against MFIs that are funded with equity. Therefore, ROA is a good measurement to compare commercial and non-commercial MFIs. A higher ROA means that the company is generating a higher return from employing their assets. In the case of an MFI this will generally mean they are generating a higher return from their loan portfolio.ROA includes the return on the loan portfolio of the MFI as well as other revenue generated from investments and other operating activities. A high ROA will matter to both commercial and non-commercial MFIs because it gives an indication of management's capability to employ assets productively regardless of the source of funding. Productive assets mean that more is accomplished with the resources the MFI has, something of interest from both a commercial and social impact standpoint.

iii. (*Net Interest Margin*) Interest Income – Interest Expense.
Net interest margin is the difference between the income earned from lending and the cost of lending. Thus, net interest margin is an indicator of whether or not an MFI requires subsidy. If an MFI has as part of its mission to be market oriented then the

Net Interest Margin will be positive. This is because the MFI is covering its interest expense by charging a rate of interest on its loans that covers the cost of lending. If the Net Interest Margin is negative, the MFI is losing money on its operations and needs subsidy to maintain operations. In this scenario, donor funds are critical to ongoing operations. In this case, a negative net interest margin may be acceptable to a an organization whose mission is entirely social and whose cost of serving poorer clientele is more costly than for profitable MFIs, requiring subsidy.

Iv. *Net Operating Income* (before donations) & *Net Income* (after-donations)

Net Operating Income and Net Income are basic indicators of the health of the company's operations as they show what income the company has left over after operating expenses and subtracted from revenues for a given fiscal period. They are also calculated on a year over year basis to indicate percentage growth. Net Operating Income and Net Income provide a basis for the various profitability and efficiency ratios mentioned. However, digging deeper to assess the sources of profitability or lack thereof is necessary to obtain an accurate assessment of the organization.

v. *(OSS) Operational Self Sufficiency*: (Financial Expenses + Impairment Losses on Loans + Operating Expense).

OSS Measures how well an MFI can cover its costs through operating revenues. It is the most basic measurement of sustainability, indicating whether revenues from operations are sufficient to cover all operating expenses. OSS focuses on revenues and expenses from the MFI's core business and thus, reflects the MFI's ability to continue its operations if it receives no further subsidies. A positive OSS trend can be achieved through growth and increased efficiency. The drives behind OSS should be considered when assessing an MFI, is increases in OSS due to larger loan sizes, high yields, low financial expenses, or efficient operations? OSS must be considered within the context of the MFI's mission.

vi. *Institutional capital* (How does the organization raise funds? Do they have a sustainable source of funds?) Gives and indication of whether or not the organization has a sustainable source of funds.

5.2 Social Indicators

Social Impact Indicator	Source of Information
Outreach & Scale	
Number of loans extended per year/Since in inception	Company data
Borrowers per loan Officer	Annual Reports, Rating Reports
Number of Products Offered	Annual Reports
Customer Retention	
Client Turnover	Rating Reports, Company Data
Poverty Alleviation	
Number of Clients crossing the poverty line	Client Surveys, Client Files Poverty line set by Indian Gov. is $11,000 Rps or approximately U.S. $256 per annum.
Number of Poor clients served	Government statistics on geographical target market

Average Outstanding Loan Size	Rating Reports, Audited Financial Statements
Geographical Concentration	Annual Reports

Outreach/Scale

I. *Number of loans extended per year, Number of loans extended since inception.*

The number of loans extended per year and since inception shows the ability of the MFI to reach more clients and achieve a degree of scale. However, Effectiveness will depend also on portfolio quality.

Ii. *Borrowers per Loan Officer*: (Number of Active Borrowers / Loan Officers)

Similar to the ratio of Active clients to staff member, the ratio of Borrowers per Loan Officers gives an indication of both the profitability and scale achieved by and MFI's loan officers. To have significant impact, MFIs should strive for the highest ratio of borrowers per Loan Officer possible before portfolio quality is compromised. This ratio should be evaluated in light of portfolio quality to ensure that greater scale and outreach doesn't significantly affect portfolio quality.

iii. *Number of Products offered*

The number of products offered per MFI assesses financial deepening, evidence by a greater depth of products offered to the same client base as opposed to a greater number of the poor reached with credit. It also shows the organization's ability to innovate and have greater impact on each client. The number of products includes the various types of loans in terms of duration and purpose, savings services, and insurance. Poor clients have little to no access to financial services, thus an MFI's ability to offer more than credit to clients is an indication of its greater potential to improve their lives by helping them to build capital through savings or mitigate risk with insurance.

Customer Retention

iii. *Client Turnover* (Number of Active Clients, End of Period + Number of New Clients During Period – Number of Active Clients, Beginning of Period// Average number of Active Clients) Client Turnover measures the net number of clients continuing to access services during the period and is used as one measurement of client satisfaction. It represents the change in active clients during the period as a percentage of average active clients. The term "turnover" rather that "loss" is used for this ratio because some clients may leave or become inactive for a period of time. The Client Turnover ratio is used to determine the level of client satisfaction with the MFI's products and services. Often, clients leave MFIs due to lack of flexible and demand-driven products. The ratio is important because it is generally accepted that the cost of retaining clients is significantly lower than the cost of recruiting new clients[29].

Poverty Alleviation

I. *Number of clients crossing the poverty line.* This is a basic impact assessment tool that gives a rough idea of whether the MFI is achieving poverty alleviation. However, it will not capture any movements between segments of poverty, such as a movement from being 'very poor' to 'moderately poor,' which we might also consider poverty alleviation. The government of India fixed the poverty line at about Rs. 11,000 or

[29] (Editor Tillman Bruett., p. 95)

US$256 per annum (Exchange rate of 43Rs/dollar).[30] We can also go by internationalized standards of poverty as measured by the World Bank of people living below U.S. $1 a day.

ii. *Number of poor clients served* as measure by Indian Standards/World Bank standards. This is a general statement that shows how well an MFI does in targeting poor clients based upon those considered poor by either national standards of approx. US$256 per annum, living on less than $1 a day, or by rough measure of loan size as used by some MFIs. Some MFIs such as BASIX have used small loan size as a rough estimation of whether their clients are likely to be 'poor.' The challenge here will be to find data that is comparable as MFIs tend to have varying ways of measuring social impact using different measures.

Iii. *Average Outstanding Loan Size*: (Gross Loan Portfolio / Number of loans outstanding).

Average outstanding loan size measures the average outstanding loan balance per borrower and is widely used as a rough proxy for the depth of outreach among lower-income clients[31]. It is recommended insofar as no other suitable indicators have won broad consensus. Although a number of factors other than income level of the client contribute to smaller loan sizes, there is a correlation between this ratio and the

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[30] *About SHARE* (Accessed March 2006); available at: http://www.sharemicrofin.com.

[31] (Editor Tillman Bruett., p. 96)

average income level of the areas served[32]. Therefore, it might be useful to monitor this ratio in light of GNI per capita and cost per client.

iv. *Geographical Concentration*: Is the MFI operating in poor areas? Or does it concentrate in urban areas or somewhat higher income areas? If the MFI operates in areas that are generally considered poor then it has a much higher likelihood of actually having the poor as the majority of its customers.

5.3 Organizational & Qualitative Indicators

Management & Governance

I. Quality of Ownership Structure: Is there a Board of Directors? How well does it function? Is there diversity of technical expertise? Is there independence from management? Do they have decision-making ability?

Strategic Vision

I. Is the MFI mission oriented? Does the MFI have a clear mission? Has it achieved its mission so far? Does the mission define the organization a social enterprise, social organization or a commercial entity? Do the organization's operations support its mission?

Transparency

[32] (Editor Tillman Bruett., p.96)

I. Availability and Access to information (Publishing of Reports (Financial & Otherwise: Frequency & Quality)

Transparency is measured by the degree of availability of data and information regarding the organization's financials, operations, and systems. For the purpose of MFI case studies, this means the quality and availability of Annual Reports and Audited Financial Statements. The greater the quality, clarity, and availability of information, the more transparent is the organization and the better the assessment of its operations. Lack of information is a risk factor for investors and higher risk often results in a higher cost of capital, or even denial of capital. Since quality of information is likely to impact investment in MFIs, especially from commercial investors, greater transparency is a positive measure for MFIs seeking diverse sources of funding.

Human Resources

I. Recruitment: Program for recruiting new personnel

The quality of an MFI's recruitment, training, and general human resource management is a good indicator of the overall quality of its staff. If an MFI is having trouble recruiting or retaining staff, this might indicate that the MFI has not yet mastered a good human resource management system.

Iii. Performance Evaluation system?

A performance evaluation system for an MFI is an indicator of human resource management. If an MFI has a performance evaluation system, it is likely providing ongoing training and incentive systems for staff performance. Incentive systems can contribute positively to the growth and health of MFIs by enhancing the productivity of staff and thus, the organization.

Information Technology System[33]:

I. Use of technology: Does the MFI have a MIS? Do they use technology in credit delivery and recording of client data?

An MFI's use of technology is an indicator of the organization's ability to innovate and reduce costs. The use of technology to create better platforms for delivery and reduce operating costs is important to any company because it enhances value to both clients and shareholders. We will be most interested in what institutional form for an MFI will drive greater use and positive impact of technology.

III. Chapter III: Case Studies: SHARE, SKS & BASIX

SHARE, BASIX, and SKS are generally considered successful private MFIs in India because of their outreach, loan portfolios, and social impact. They make good case studies as information on them is readily available and they offer the greatest wealth of experience and information on the potential for private institutions to do microfinance. These case studies are a rough example of how one might approach analyzing MFIs in order to extract what they are doing right, what constrains them from doing more of it, and what they could do better. The focus will be analyzing each MFI with the idea of comparing their relative success both before and after transforming to an NBFC. The use

[33] (Tillman Bruett, pp. 91)

of the impact indicators defined above will assist in accomplishing this but is still somewhat lacking in terms of a robust social impact analysis and is therefore weighted towards financial impact analysis.

1. Share Microfin Ltd.

1.1 Background

SHARE is India's largest MFI in terms of outreach or number of loans given. Thus, any comprehensive study of MFIs in India will have to consider SHARE. SHARE provides a contrast to BASIX in both lending methodology and organizational style. SHARE (Society for Helping, Awakening Rural poor through Education) was originally registered under the Societies Act as a service organization in the year 1989 by Mr. M. Udaja Kumar, Founder and Chairman. It then transformed into 'SHARE Microfin Ltd,' a regulated Non-banking Financial Institution (NBFC) under the companies act in the year 2000. SHARE operates mostly in the rural areas of the states of Andhra Pradesh and Karnataka. Its mission is "the reduction of poverty by providing financial & support services to the poor, particularly women, for viable productive income generation enterprises enabling them to use their skills and reduce their poverty."[34] SHARE is one of the few Grameen Bank replicators in India, meaning that it uses the Grameen methodology in its operations by focusing on loaning to groups of women. The focus on women is to ensure that the benefits of increased income accrue to the general welfare of the family, particularly children.

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[34] *SHARE Microfin Profile*. (Accessed January 2006); available from: http://www.mixmarket.org

During the years 1991-1994 SHARE had started its microcredit operations as a two year action research project with a US$25,000 recoverable grant from the Asia Pacific Development center and a soft loan of US$35,788 from the Grameen Trust in Bangladesh. SHARE's major expansion however, began in 1997 with the opening of six new branches to a total of ten branches with one branch achieving self sufficiency. With this, SHARE felt it had a viable model that could be replicated all over India. Up until this point, SHARE had been a non-profit organization registered as a charitable society.

SHARE decided to transform for several reasons, one of which was the legal constraints it faced as an NGO. However, it also felt that transformation would allow it to attain financial self-sufficiency which its NGO legal status did not permit. SHARE saw the profit motive as against the principles of charity. We might expect then, to see an improvement in the financial sustainability of SHARE after transformation.

On the other hand, we might also expect to see a change in the social impact of SHARE if the profit motive results in lending to clients that are more profitable, and thus, likely less poor. Of course, this might not happen if SHARE is able to cross-subsidize its poorer clients with the larger returns it earns from lending to better off clients. Also, we might see a loss of innovation and flexibility in product development as an NBFC due to the requirements and restrictions placed on regulated organizations.

There was a recognition that the activities of SHARE needed to be transformed in order to achieve financial sustainability. The legal status of SHARE at that time did not permit it due to a conflict of interest between the profit motive and the notion of a charity embedded in the legal identity of NGOs. According to SHARE, the two major limitations of being registered as a society were that the income tax law in India does not recognize charitable institutions carrying on microfinance activity and thus, the MFI loses its tax exemption. Secondly, raising funds becomes a difficult task when financial leverages cannot be optimized because the net worth and equity of the MFI do not work for profit[35]. Recognizing these constraints, SHARE transformed to a community owned and managed for-profit regulated financial institution registered under the companies act in the year 2000.[36] SHARE's target clients are women whose per capita income is less than Rs. 250 per month (Approx. US$5.80) and their asset holding is less than Rs. 20,000 (Approx. US$465).[37]

1.2 Sources of Capital

SHARE's sources of capital, both historically and going forward, are critical to its viability as an MFI and its ability to grow and reach more clients. Since MFIs are in the business of lending, a steady and growing stream of capital is central to its business. SHARE's 2001 annual report states that 99% of the equity in SHARE has been contributed by its clients with the remaining 1% from unspecified individuals. In the 2004 audited financial statements, share capital was listed at Rs. 122,761,700 or approximately US$2,900,000.[38] However, the debt equity ratio of SHARE for 2004 was 552% indicating that the organization is highly leveraged with share capital not constituting a significant source of funding for the MFI. Data from the Mixmarket, a microfinance rating agency operated by the Consultative Agency for the Advancement of

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[35] About SHARE. (Accessed 03/16/2006); available from: (http://www.sharemicrofin.com).
[36] SHARE Microfin Ltd. (http://www.sharemicrofin.com). Accessed 03/16/2006.
[37] Kumar, M. Udaia, "Growing Stronger with our Members: Microfinance at SHARE," paper presented at the Bankers' Institute for Rural Development, Lucknow, India, 1998. Accessed March 2006. Available from: http://www.sharemicrofin.com.

[38] *SHARE Annual Report 2001*. (Accessed March 2006); available from: http://www.mixmarket.org.

the Poor (CGAP) at the World Bank, shows that SHARE's debt to equity ratio was 57 % in 1998 when it was an NGO and has risen significantly over the years, showing that SHARE has accessed capital for growth mainly from debt[39]. This is not necessarily unusual of a bank. However, more caution is needed in microfinance when leveraging assets than compared to traditional banking due to the lack of empirical data on performance of microfinance banks. Therefore, the same assumptions cannot be made about the 'appropriate' level of leverage for an MFI in the same way that is done in commercial banking by using years of empirical data on defaults risk in order to assess the safe level of leverage for the bank. Therefore, while becoming and NBFC might increase an MFI's access to commercial capital, if this capital is mainly in the form of debt it could increase the risk of the organization if it becomes too highly leveraged.

1.3. Analysis of costs & benefits of credit delivery model using metrics developed

1.31 Financial Analysis

The data used in compiling the financial analysis for SHARE was mostly obtained using ratios provided by The MixMarket (CGAP) profile for SHARE. Some attempts were made to calculate ratios from financial statements, however many of these ratios for MFIs require adjustments in order to make them comparable among MFIs. According to Microtool, a framework for reporting analysis of MFIs that was commissioned by USAID, adjustments are usually made for two purposes: to reflect true performance of MFIs and allow for benchmarking across a wide range of institutions. True performance reflects the desire for a way to assess an MFI's ability to

[39] *SHARE Profile*. (Accessed March 2006); available from: http://www.mixmarket.org.

maintain the level of income of their operations over the long run. These adjustments stem from the fact that many MFIs operate in different jurisdictions with different accounting requirements and that traditional accounting data do not always take into account the risks that MFIs face. The three major adjustments made that are traditionally applied to MFIs for ratio analyses are adjustments for subsidies, inflation, and Portfolio at Risk (PAR).[40] For example, the adjustment on PAR is to reduce the size of PAR and the Gross Loan Portfolio by writing off PAR > 180 days. This limits the analysis to a part of the loan portfolio that might still reasonably be repaid and managers can focus their efforts on addressing delinquency that could be recovered early. Adjustment for subsidies that MFIs receive is important because planning for a future without subsidies, becoming an NBFC, requires looking at what an MFI's performance would look like without them. It also allows for more meaningful a comparison of performance indicators with other MFIs. Two adjustments are used to offset the effect of subsidies: a subsidized cost of funds adjustment and an in-kind subsidy adjustment. The subsidized cost of funds adjustment is an adjustment that was designed to put a market value on any subsidized borrowing an MFI has to determining the likely cost of borrowing if an MFI had to pay a market rate for them. This allows for a financial analysis that better reflects what cost structure an NGO MFI will face once it becomes a financial company. The in-kind subsidy adjustment puts a cost on in-kind subsidies that an MFI may receive, such as donated vehicles or free computers, in order to identify the true cost of operations of a MFI. It is valuable for management to know how dependent they are on such subsidies to continue operations.[41] The only

[40] (Editor Tillman Bruett., p. 45)
[41] (Editor Tillman Bruett., p.49-52)

extra indicators that were calculated and not borrowed from the MixMarket profile were the number of shareholders and the capital formation rate. The financial data is taken from the two years before SHARE transformed, 1998 to 1999, and the most recent two year period from 2003 to 2004 in order to give a picture of the MFI both before and after the transformation.

SHARE Microfin Ltd. Financial Analysis Summary Table[42]

Ratio	Benchmark (MicroBank Bulletin)	2004 fiscal year end 31/03/05 (NBFC)	2003 fiscal year end 31/03/04 (NBFC)	1999 fiscal year end 31/03/00 (NGO)	1998 fiscal year end 31/03/99 (NGO)
Operating Efficiency					
Operating Expense Ratio	19%	**14%**	**16.05%**	**17.37%**	**19.77%**
Cost per Borrower	n.a.	**$17.10**	**$17.20**	**$ 19.50**	**$ 24.60**
Borrowers per Staff	185	**184**	**197**	**112**	**101**
Loan Loss Protection					
# of Total Shareholders		n.a.	26,000	n.a.	n.a.
Growth					
Gross Loan Portfolio	$9,844,044	$40,218,274	$18,902,622	2,401,976	1,036,040
Loan Portfolio Growth Rate		**113%**	**687%**	**132%**	**74%**
Profit Margin		**17%**	**15%**	**-2.55%**	**-14.60%**
Capital Adequacy					
Leverage (Debt/Equity Ratio)	190%	**740%**	**564%**	**134.23%**	**65.40%**
Total Assets		$ 44,761,913	$ 23,294,920	$ 3,339,822	$ 1,679,677
Asset Growth		92%	597%	99%	63%
Asset Quality					
Portfolio at Risk (PAR)	**1.30%**	**0.19%**	**0.00%**	**n/a**	**n/a**
Write-off Ratio	n.a.	0.00%	0.00%	n/a	n/a
Capital Formation Rate	n.a	0.2071%	n.a.	n.a.	n.a.
Sustainability & Profitability					
Return on Equity (ROE)	**16.60%**	**24.63%**	**22.88%**	**-1.10%**	**-4.77%**
Return on Assets (ROA)	**7.70%**	**3.15%**	**3.17%**	**-0.54%**	**-2.94%**
Net Interest Margin		**60.04%**	**63.54%**	n.a.	n.a.
Operating Self Sufficiency (OSS)	**153%**	**120.03%**	**118.16%**	**97.52%**	**87.26%**

The Financial Indicators of SHARE show a brief picture of the company and how it is doing compared to a benchmark average of 49 MFIs serving the same target market.

[42] SHARE Profile. (Accessed March 2006); available from: http://www.mixmarket.org.

The benchmark used is in the MicroBanking Bulletin published by CGAP. One of the positive indicators which is notable is SHARE's loan portfolio, which is four times the benchmark portfolio. This abnormally large size portfolio indicates the positive outreach of SHARE. It is interesting to note that between 1999 and 2003, since SHARE's transformation to an NBFC, SHARE's loan portfolio grew by 687%. Of course, this should be taken in light of the quality of these loans by looking at SHARE's portfolio at risk which is surprisingly low in 2004 at 0.19% indicating that the quality of SHARE's portfolio seems to have not diminished with its rapid growth. Also, SHARE shows a return on equity of 21.8% in 2004 up from -1.10% in 1999 before transformation. Its ROE is now above the benchmark adjusted return on equity of 16.6%. Overall, the trends seem quite positive regarding the financial impact of transformation. SHARE's operating expense ratio decreased from 17.37% before transformation to 14% in 2004 after transformation and its cost per borrower went down over the same period from $19.50 to $17.10. Also, SHARE's ROA and ROE have gone from negative before transformation to positive after transformation and its operating self sufficiency has increased from 97.52% before transformation to 120.03% after transformation. Lastly, SHARE's borrowers per staff increased from 112 in 1999 to 184 in 2004 after transformation, showing higher level of productivity per staff member.

The indicators that raised some red flags were the debt to equity ratio, return on assets, and net income margin. SHARE's financial leverage is significantly larger than the benchmark, showing that SHARE is highly leveraged, which could potentially pose risks to its shareholders and its clients. In 2004, SHARE had a debt to equity ratio of 740% up from 134% in 1999 before transformation, which is quite high compared to other MFIs of the same asset size and age who have an average ROE of 190%. There has been concern about microfinance banks taking on such high leverage in comparison to the commercial banking sector. Commercial banks are able to be highly leveraged because of the years of empirical data on the risk of commercial banking as a business, data which is not available for microfinance banking. Thus, the risk to shareholders is higher absent of guarantees, especially when shareholders are poor clients[43]. SHARE's return on assets is also 3.15% in 2004 up from -0.15% compared to the benchmark ratio of 7.70%, which shows that SHARE lags its peers on productive use of assets even though it has gone from a negative ROA to a positive one after transformation. Lastly, SHARE's Net Profit Margin was 17% in 2004 up from -2.55% in 2003 which is a significant improvement although it is still below its peers with a Profit margin of 23.5%. This new profit margin makes SHARE more attractive to commercial investors because SHARE is now covering its costs with revenues sufficiently to generating income. Also, the higher the profit margin the more funds SHARE has to reinvest and loan, as well as dividends to pay to its shareholders, who also happen to include its clients.

1.32 Social Indicators

As previously mentioned, compiling social indicators that could be used to compare across MFIs was found to be quite difficult because of a lack of standard for measuring social impact in microfinance. Even the most basic measure of clients crossing the poverty line is not always used in measuring impact. Therefore the social indicators found below, not only do not give us as accurate a view of social impact as

[43] "Regulation & Supervision of Microfinance Institutions," CGAP Focus No. 4, August 1996. Accessed March 2006. Available from: http://www.cgap.org.

we would like, they allow for limited comparison of that impact before and after transformation. This is because SHARE's only assessment of poverty alleviation is in its 2001 annual report. Thus, SHARE's impact assessment mainly focuses on its impact as an NGO and not as an NBFC, leaving little available comparison.

SHARE Microfin Ltd. Social Impact Analysis Summary Table				**(US$)**
Indicator	**2004** (NBFC)	**2003** (NBFC)	**2001** (NBFC)	**1999** (NGO)
Outreach/Scale				
$Amt loans per year	$40,218,274	$18,902,622	5,799,022	$ 2,401,976
# Approx. loans since inception	887,661	n.a.	n.a.	n.a.
$Amt loans since inception	$ 72,077,839	$ 31,859,565	$ 12,956,943	$ 4,331,470
Borrowers per Staff Member	184	197	183	112
Number of Products offered	6			
Mobilizes Deposits	No	No	No	No
Offers Insurance	No	No	No	No
Poverty Allieviation				
Clients crossing Poverty Line	n.a.	n.a.	38.40%	
Poor Clients served	100%	100%	100%	100%
Very' Poor Clients served	n.a.	n.a.	64%	n.a.
Women Clients	100%	100%	100%	100%
Avg. Loan per Borrower	$ 109.00	$ 96.00	$ 68.00	$ 78.00

Overall, SHARE appears to rank well on social impact, although it is difficult to extract a change in this impact from transformation to an NBFC. In line with its mission to reduce poverty by providing financial services to the poor, particularly women, SHARE claims 100% of its clients are considered poor by Indian Standards, which has not changed post transformation. Of its poor clients, SHARE also claimed in 2001 just after transformation that by its poverty index, 64% of its total clients are considered 'very poor.' The very little we have in comparison of before and after transformation are outreach in terms of the size of SHARE's loan portfolio which increased from $2,401,976 in 1999 to $40,218,274 in 2004, a 1574% increase. This is a substantial increase in loans disbursed to SHARE's clients, however it does not tells us whether those loans contributed to a sustained change in household income or living standards, which we would like to see in order to say that SHARE has contributed to poverty alleviation after transformation. We can look at SHARE's impact assessment in 2001 which endeavors to do this, however ideally we would like to see an impact assessment that stretches to 2004 to see whether this positive impact is sustained.

SHARE's approach to track poverty is that of composing indexes or scales of poverty based on important indicators, and to plot the positions of households on a composite index of poverty at different points of time. SHARE indicated that four indicators are given equal weight in its poverty index: sources of household income, dependency burden on that income, productive assets, and housing quality.[44] If the category or position of a household has not changed the household is said not to have experienced a significant change in its poverty status. If the household has moved from one category to another over time, it is said to have experienced poverty movement either up or down the scale. SHARE does not include conventional indicators of poverty such as household income and food calories consumed for practical reasons. It found this process to be time consuming and costly to complete. SHARE also did not feel qualified to do the surveys required. The MFI completed a study of three of its branches in 2001 which indicated movement between its own categories of poverty. The table below shows the percentage changes between those categories of poverty. The largest movement is 38.4% of mature clients moving from the category of very poor to moderately poor[45].

[44] (SHARE Annual Report, 2001, p. 11)
[45] (SHARE Annual Report, 2001, p. 10)

Table 1 Poverty Reduction at SHARE Microfin Ltd.

Poverty Movement	Mature Clients	%	Cum. %
Very Poor to Moderately Poor	48	38.4	38.4
Very Poor to Non Poor	22	17.6	56
Moderately Poor to Non Poor	26	20.8	76.8
No Change	27	21.6	
Non Poor to Moderately Poor	1	0.8	
Moderately Poor to Very Poor	1	0.8	
Totals	125	100	

[46]

These measurements by SHARE show a positive impact on poverty alleviation. However, they were measured one year after transformation which is not a long enough time period to tell whether SHARE's impact on the poor has been affected by transformation. Also, while these measurements of poverty impact are closest to the basic platform we would like to see, they are not standardized within the field and therefore they are less meaningful for comparison.

We might also be concerned about trends in the financial analysis of SHARE which could indicate a tendency to move away for poorer clients, such as the increase in SHARE's profit margin after transformation as well as the increase in the number of clients per staff member. There are two main reasons we might attribute SHARE's increased Profit margin, higher interest rates and reduced costs. SHARE does in fact show a decrease in its operating margin of approximately 3.5% over the period of transformation, but this does not exactly offset the roughly 17% increase in SHARE's profit margin over this period. While SHARE's the interest rate SHARE charged before transformation or after is not readily available, we can still estimate a likely increase in the interest rate charged from the financial analysis. To sure, however, we would want more information on the interest rates SHARE has charged. Also, we might consider the

[46] (SHARE Annual Report, 2001, p. 10)

possibility that charging higher interest rates might not necessarily result in a loss of targeting the poor if SHARE is able to cross-subsidize the cost of reaching poorer clients with the higher returns it might make on lending to less poor clients. Therefore, SHARE's evolving loan methodology as an NBFC will be a key part of its targeting of poor clients.

Also, SHARE's increase in borrower per staff member post transformation might lead to the concern that less staff effort is being put into finding poorer clients. For this, we would need to see how SHARE's field agents might have changed in their loan practices post transformation, information that is hard to glean from published information on SHARE. We would be most interested in finding out whether these improvements in efficiency per staff member have contributed to lower levels of poorer clients targeted or whether they truly are a result of greater incentives and training for staff to reach more of the same poor clients they are currently reaching.

1.33 Organization & Management Analysis

Strategic Vision

SHARE's stated mission is the reduction of poverty by providing financial & support services to the poor, particularly women. Since SHARE has converted from a society under the Societies Act in India to an NBFC under the Companies Act it has become a regulated entity. We might be concerned about the impact on SHARE's mission of transforming to an NBFC, in that it might become overly concerned with financial sustainability and outreach at the cost of its social mission. This does not seem to be the evidence with SHARE thus far, in fact, part of their reasoning for the transformation is that it is in the interest of reaching more of their target client base, the poor. Therefore, the organization's commitment to its social mission does not seem to have waned with transformation. Overall, SHARE's operations still seem to support its mission thus far with its continued focus as an organization to reduce poverty.

Also, now that SHARE has made the transition to an NBFC, should it consider raising equity for growth in the future, it will have to find a way to balance its heavily socially motivated mission with the imperative to improve shareholder value. This will partly depend on the type of shareholders it might attract and whether they are motivated by social as well as financial gains. Currently, 99% of its shareholder are its clients so this is not as much a concern. However, the balancing of social and financial goals is one of the challenges of becoming an NBFC. An MFI will have to work that much harder to maintain the same focus on social impact that it had as an NGO while also dealing with the regulatory constraints and financial pressures that come with being a regulated financial entity. This makes the clarity and strength of an MFI's mission very important as well as staff having a good understanding of that mission in their work.

Management & Governance

The shareholders of SHARE are mainly its clients with the exception of a few individuals with experience in microfinance who have contributed to the equity of SHARE and have taken up positions in the Board of Directors. As of SHARE's latest annual report in 2001, the total number of shareholders was 26,000 which is a direct result of SHARE's transformation to an NBFC.[47] SHARE's board of directors is elected yearly, once from amongst the shareholders of the company and two women clients of

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[47] (Bhattacharjee, B.R. and Staschen, Steven, p. 18)

SHARE also serve on the Board of Directors. Roughly a total of eight members constitute the Board of SHARE. The board members "render continuous support to the institution through their valuable suggestions and active participation in policy decision making and operations of the institution."[48] SHARE's board is the final policy maker in guiding the institution.

Transparency

SHARE has regular publication of audited financial statements as of 2002 that are in line with its counterparts and are clear and easy to interpret. Its latest annual report was published in 2001.This is a direct result of transformation to an NBFC as annual reports are now legally required of the organization, and SHARE did not publish such reports prior to transformation. Very little incentive exists for an NGO to publish audited financial statements because of the time consuming process and cost of putting together these reports on an annual basis. However, on the social impact side, there is greater incentive for an NGO than an NBFC to do a careful impact assessment of poverty alleviation because donors might often require it. Therefore, it remains to be seen whether SHARE will continue to conduct such careful poverty alleviation impact assessments now that greater pressure is placed upon it to report on its financials annually.

Human Resources

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[48] *SHARE Annual Report, 2001*. (Accessed March 2006); available from: http://www.mixmarket.org.

In the practice of its human resource management policy SHARE endeavors to instill a rigid discipline throughout the organization when it comes to loan disbursement and staff ethics. A paper presented by the founder and chairman, Mr. Udaia Kumar stated, "The dedication and integrity of every staff member is maintained in a unique way. He takes a pledge in front of the borrowers at their weekly meetings that he will dedicate himself, to their welfare, and will not be corrupted by taking even a glass of water."[49] Mr. Kumar attributes some of SHARE's success to the close monitoring and supervision of all activities of SHARE and its borrowers in the village. Training programs and workshops are also mentioned as contributors to the success of SHARE. There does not seem to be a formal performance evaluation system for staff aside from routine evaluations from managers, which is assumed standard practice. SHARE had an issue initially with staff dropout during its first two years of operation due to the laborious and rural nature of the work. It was also mentioned that the staff did not see as much career opportunity with SHARE. This problem has lessened with the expansion of the program. As of 1998, the staff dropout rate was 2%. SHARE feels that experience is a liability in hiring managers and senior managers for microfinance programs due to the high salary costs. Now SHARE recruits graduates, undergraduates, and fresh candidates with no experience for the post of project assistants and later promotes them for senior positions.[50]

Information Technology System

SHARE also computerized every branch before transformation to an NBFC which

[49] (M. Udaia Kumar, 5)
[50] (M. Udaia Kumar, 10)

it uses to monitor individual sources and uses of funds.[51] It also claims an effective MIS system, however we are unclear about the quality of that system. In SHARE's 2001 annual report it also announced the launching of a Smart Card which allows it to automate data capturing and transactions processing to increase efficiency and coverage.[52]

Loan Methodology

As mentioned, SHARE employs the Grameen loan methodology. This involves providing small loans to groups of women along with some training, consulting, and business development services. The Grameen model is a widespread "model" of microfinance that focuses mainly on credit with some basic training. SHARE's products are all loans, with some housing and sanitary loans and six different types of loans in total. The longest term loans are housing loans which have duration of 4 years. This loan methodology has not changed with transformation.

1.4 Summary

As of 2001, just after transformation, SHARE reported a loan repayment rate of 100%. Although MFIs in India do not seem to readily report the interest rate they charge, our financial analysis of net interest margin shows that SHARE was earning a 60% margin on its cost of lending in 2004. This indicates that the interest rate SHARE charges is sufficiently above its cost of lending, and therefore SHARE is not engaged in subsidized lending. Along these lines, SHARE's profit margin has gone from -2.55% in

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[51] (M. Udaia Kumar, 5)
[52] (SHARE Annual Report, 2001, p. 6)

1999 before transformation to 17% in 2004. This indicates that SHARE has become more financially sustainable during the time period after transformation to an NBFC. Our analysis of SHARE shows that the financial impacts of transformation for SHARE appear positive overall, both in profitability as well as outreach. However, we still find a relatively incomplete picture of the impact of transformation on SHARE's poverty alleviation. While SHARE's 2001 Annual Report, just after transformation, reports relatively good impact on poverty alleviation, it remains to be seen whether this will be sustained, especially with incentives re-aligned to place greater emphasis on financial independence.

2. BASIX Finance

2.1 Background

Bhartiya Samruddhi Finance Limited (BASIX) is one of the largest MFIs in India when it comes to total loan portfolio, although its outreach in terms of number of loans is smaller than that of SHARE. BASIX is unique from both SHARE and SKS in that it began as an NBFC, but evolved into a holding company in which an NBFC, Local Area Bank (LAB), and NGO are held. The NBFC portion of the BASIX group, which will be the focus of the financial and social impact analysis of this case study, is Bhartiya Samruddhi Finance Limited (BFSL). The founder of the BASIX companies, Vijay Mahajan, had also founded an NGO, PRADAN and after conducing research decided to open a development finance company. Bhartiya Samruddhi Finance Limited (BSFL) provides an interesting comparison to SHARE. BSFL's experience is the experience of an MFI from start to beginning as an NBFC. Thus, the question we are answering in this case will be slightly different. We are interested in the costs and benefits of having started an NBFC rather than an NGO, and the comparison to both SKS and SHARE who started as NGOs. This comparison in some ways provides a richer picture of the costs and benefits to NGOs of transforming to an NBFC by comparing the changes in indicators over time of an MFI that started as an NBFC but evolved to include both an NBFC and an NGO.

Bhartiya Samruddhi Finance Limited (BSFL) is an NBFC registered under the Indian companies act and regulated by the Reserve Bank of India (RBI). 'Bhartiya' means 'Indian' and 'Samruddhi' means 'prosperity.' The name was chosen in order to emphasize prosperity rather than poverty.[53] The BASIX companies have a unique organizational structure and are very innovative in their loan methodology. BSFL uses its own hybrid method of both individual lending and Grameen-like group lending.

The BASIX group together provides approximately 90,000 clients in nine states with credit, insurance, agricultural business development services and capacity building. Samruddhi (BSFL) is the financial arm of BASIX which provides financial services, pre-dominantly microcredit, insurance, and technical assistance to the rural poor. The business is characterized by intense field presence due to unit offices located in the field and loans originated at the customer's home or workplace through customer service agents (CSAs). Samruddhi, as of 2002, works in 3,300 villages spread over 18 districts in the states of Andhra Pradesh, Karnataka, Maharashtra, Orissa and Jharkhand. The

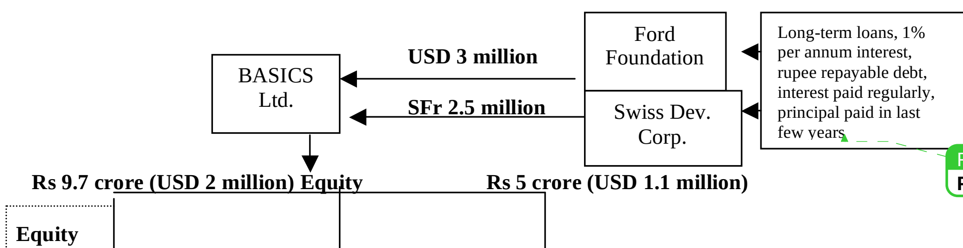
[53] Loonker, Surya Prakash, "BASIX: Equity for Equity," Case study, Asian Institute of Management, AIM-CAFO Research Project on Social Entrepreneurship supported by the Japan Foundation Asia Center, Date Unknown.

company has cumulatively disbursed Rs. 1135 million or approx US$264,000,000 (Exchange Rate of 43 Rs/$) through 165 customer service agents (CSAs).[54]

Krishna Bhima Samruddhi (KBS Lab) is BASIX's local area bank (LAB) and is therefore a regulated bank that can mobilize deposits in its local district in Andhra Pradesh. KBS Lab is BASIX's newest company and India's first micro-finance bank started in 2001 in efforts to offer clients savings services. The challenge for KBS lab so far has been the geographical restriction in offering savings to BASIX clients. However, KBS lab is young and pending its success, BASIX may be able to scale up operations.

The last company, Indian Grameen Services (ISI), at BASIX is a non-profit registered "section 25" company that conducts livelihood research and development of potential products and services for the BASIX Group.[55] A map of BASIX's corporate structure and funding is shown in the table below. This map shows the unique complexity of the MFI which provides a contrast to the evolution and organization structure of both SHARE and SKS.

The BASIX Corporate Structure[56]



Raven Smith 4/30/06 3:03 PM
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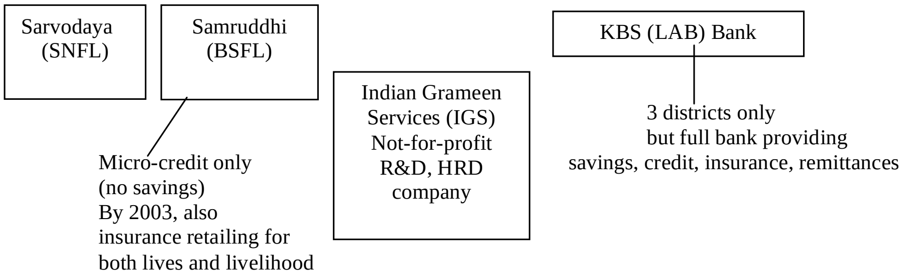
[54] *BASIX Annual Report 2002*. (Accessed February, 2006); available from: http://www.basixindia.com.

[55] *BASIX Annual Report 2001*. (Accessed February, 2006); available from: http://www.basixindia.com.

[56] (Surya Prakash Loonker, p.6)



The CEO and founder of BASIX, Vijay Mahajan, founded BASIX as an NBFC in 1996 along with Bharti Gupta Ramola and Deep Joshi. Mahajan is a graduate of the Indian Institute of Technology (IIT) in Delhi and the Indian Institute of Management (IIM) in Ahmedabad. BASIX was started with approximately US$25,500 (43 Rs/$) contributed by its founders who intended to leverage this equity with developmental loans.[57] The founders of BASIX believed in promoting sustainable livelihood for the poor through social entrepreneurship which they defined as, “Business for a Social Purpose.” Thus, BASIX was founded upon the idea of an institution that would focus on reducing poverty through increased livelihood opportunities for the poor. The founders of BASiX believed in an institution in which there was a zone of overlap between business and a social mission, and a deep engagement in the social part.[58] Originally, Mr. Mahajan’s concept paper for BASIX envisioned a commercial bank, however he was not able to raise the requisite equity of USD 30 million in those days and instead, along with two other promoters, he created BASIX as an NBFC.[59]

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[57] (Surya Prakash Loonker, 3)
[58] (Surya Prakash Loonker, 4)
[59] (Surya Prakash Loonker, 2-3)

Mr. Mahajan originally created BASIX as an NBFC because he felt that this was the best way to deal with the paradox he saw India in which there was neither widespread access to financial services nor sustainability of their delivery. Such an opinion was formed during a study Mahajan completed for the World Bank along with Bharti Ramola on the demand for and supply of financial services for the rural poor and women in India. Their conclusions indicated that existing institutions in the formal sector were neither reaching the poor effectively nor doing it in a financially sustainable manner.[60]

The slogan for BASIX is "equity for equity" and its stated mission is, "To promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner." BASIX's mission also states, "BASIX will strive to yield a competitive rate of return to its investors as to be able to access mainstream capital markets and human resources on a continuous basis." We note that this mission statement is much more commercially oriented in nature than that of SHARE, which likely stems from the fact that from inception, BASIX has had the dual goal of social impact and financial return. The one benefit BASIX has had is a continuity and clarity of mission because it has not had to undergo a major transformation that would re-align its mission statement. Mr. Mahajan has stated that the main goal of BASIX is to promote livelihoods for poor people, mostly rural as stated in the mission. BASIX endeavors to do this by providing credit, technical assistance, and support services such as market linkages and input support.[61]

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[60] Mahajan, Vijay and Ramola, Bharati, "Starting Microfinance in India," Journal of International Development, Vol. 8 No. 2, 1996. Accessed: January 2006. Available from: http://www.microfinancegateway.org.

[61] *Bhartiya Samruddhi Finance Limited Profile*. (Accessed: February, 2006); available from: http://www.mixmarket.org.

2.2 Sources of Capital

BASIX started in 1996 with equity from its founders which was followed by concessional loans from Indian and foreign donors such as the Ford Foundation and the Swiss Development Corporation (SDC). By 2002, BASIX had over fifteen different funders providing seven different forms of financing from convertible loans to deposits from the public and had achieved its goal of a diversified and reliable funding base. This positions BASIX to provide a wide range of financial services to its clients over time. The flexibility of initial bilateral donors allowed BASIX to use subsidized funds for start-up operations while equity from quasi-commercial and fully commercial sources have provided a base for leverage and scale. Commercial borrowings have enabled BASIX to manage liquidity and public deposits which have provided stable, community based funding.[62]

BASIX's shareholders as of 2004 are BASIX itself, The International Finance Corporation (IFC), Triodos Funds of the Netherlands, Shorebank Corporation, ICICI Bank, HDFC (Housing Development Finance Corporation) of India, and other individuals not specified. The total Share Capital of BASIX is approximately US $4,860,500.[63] BASIX's funding evolution shows that it has tried to diversify its funding base in order to manage risk and ensure sustainability. How an organization sources funds in microfinance can say a lot about its impact potential. Whether funds are from

[62] Dileo, Paul, "Building a Reliable MFI Funding Base: Donor Flexibility Shows Results," GCase Studies in Donor Good Practices No. 5, September 2003, CGAP Direct. Accessed January 2006. Available from: http://www.cgap.org.

[63] BASIX Audited Financial Statements 2004. (Accessed March 2006); available from: http://www.mixmarket.org.

public, private, or quasi-public sources, the more diverse the source of funding generally means the lower the risk of the MFI. It is interesting to note that BASIX's funding is quite diverse both in source and type of funding. This might stem from the fact that BASIX started as an NBFC and therefore has had a longer history of reporting requirements, making it more likely to access both commercial and public sources of funds.

2.3 Analysis of costs & benefits of Transformation

2.31 Financial Analysis

The process of gathering the financial data and ratios for BSFL, BASIX's NBFC arm, is the same as for SHARE. Most ratios were taken from BSFL's profile on CGAP's MixMarket. The only ratios calculated from audited financial statements were Net Interest Margin and the Capital Formation Rate. The financial analysis is done only on the NBFC arm of the BASIX companies to provide a better comparison with SHARE and SKS.

(BSFL) Financial Analysis Summary Table[64]

Ratio	Benchmark (MicroBank Bulletin)	2004 fiscal year end 31/03/05 (NBFC)	2003 fiscal year end 31/03/04 (NBFC)	1999 fiscal year end 31/03/00 (NBFC)	1998 fiscal year end 31/03/99 (NBFC)
Operating Efficiency					
Operating Expense Ratio	19.1%	**15%**	**14.20%**	**11.41%**	**13.74%**
Cost per Borrower	n.a.	$ 27.90	$ 30.00	$ 25.00	$ 24.60
Borrowers per Staff	**117**	**145**	**142**	**160**	**210**
Loan Loss Protection					
# of Total Shareholders	n.a.	8	8	n.a.	n.a.
Growth					
Gross Loan Portfolio	$8,819,324	**$13,009,883**	**$8,874,006**	**2,554,533**	**1,382,287**
Loan Portfolio Growth Rate		**47%**	**247%**	**85%**	**215%**
Profit Margin	**17.70%**	**3%**	**7%**	**-5.01%**	**9.51%**
Capital Adequacy					

[64] BASIX Profile. (Accessed: March 2006); available from: http//:www.mixmarket.org.

Leverage (Debt/Equity Ratio)	240%	**186%**	**126%**	**209.07%**	**78.04%**
Total Assets		$ 15,414,005	$ 12,005,418	$ 3,008,001	$ 1,736,419
Asset Growth		**28%**	**299%**	**73%**	**239%**
Asset Quality					
Portfolio at Risk (PAR)	**3.00%**	**4.80%**	**7.97%**	**n/a**	**13.64%**
Write-off Ratio	n.a.	1.62%	2.50%	0.49%	n/a
Capital Formation Rate	n.a	0.0626%	n.a.	n.a.	n.a.
Sustainability & Profitability					
Return on Equity (ROE)	**14.00%**	**0.10%**	**1.52%**	**-5.54%**	**0.41%**
Return on Assets (ROA)	**4.20%**	**0.04%**	**0.71%**	**-2.28%**	**0.22%**
Net Interest Margin		**82.02%**	**80.80%**	n.a.	n.a.
Operating Self Sufficiency (OSS)	**134%**	**103.15%**	**107.25%**	**95.23%**	**110.51%**

Most of the financial Analysis for BASIX seems to show a positive picture in terms of the health of the organization within the time period covered. The benchmark used to compare BASIX was the same one used for SHARE in the MicroBanking Bulletin. The peer group for BASIX is different than that of SHARE in that it is not low-income but a broad target market. The ratios for this target market are slightly different. Overall, BASIX fares as well or better than the benchmark ratios except for in a few key areas: Portfolio at Risk (PAR), Operating Self-Sufficiency, ROE, and ROA. BASIX had a PAR of 4.80 % in 2004 down from 13.64% in 1998 while the average for its peer group is 3%. The downward trend in PAR is a good sign but will need to be sustained to indicate quality growth in lending and outreach. In addition, BASIX's operating sufficiency has actually decreased moderately from 110 % in 1998 to 103.15% in 2004 and is still below the benchmark of 134% which indicates that BASIX isn't doing quite as well as its peers in covering expenses with revenues. However, this may not yet be of concern unless it begins declining. BASIX's (ROE) and (ROA) are also somewhat below its peers. Its ROE was 0.10 % in 2004 up from -5.54 % 1999 but still far below the benchmark of 14% and its ROA was 0.04 % in 2004 up from -2.28 % in 1999 compared to the benchmark of 4.20%. There might be greater concern about BASIX's return on equity than its return on assets which stems from the fact that BASIX's leverage was 147% in 2004 up from 78% in 1998, much lower than the industry average of 240%. Therefore, BASIX has much more equity to spread its gains in lending over which lowers return. BASIX's low leverage might be considered a positive aspect in terms of safety and risk mitigation but might be considered a negative aspect in terms of profits. There is not enough of a body of knowledge yet about appropriate leverage ratios in the analysis of MFIs to make any conclusions yet as to the right level of leverage in MFIs.

2.32 Social Impact Analysis

Trying to measure social impact with BASIX was even more difficult than with SHARE, which probably stems from the fact that BASIX started as an NBFC and so might have had less incentive to publish poverty alleviation impact analysis along with its annual reports and audited financial statements. The information we have on BSFL's poverty impact is far from ideal, resulting in an impact analysis that is skewed towards the financial analysis.

BASIX Social Impact Analysis Summary Table	(US$)			
Indicator	**2004** (NBFC)	**2003** (NBFC)	**2002** (NBFC)	**1999** (NBFC)
Outreach/Scale				
$Amt loans per year	$13,009,883	$8,874,006	6,461,234	$ 2,554,533
# Approx. loans since inception	150,062	n.a.	n.a.	n.a.
$Amt loans since inception	**$ 264,000,000**	**$ 21,830,949**	**$ 12,956,943**	**$ 4,385,248**
Borrowers per Staff Member	**145**	**142**	**136**	**160**
Number of Products offered	6			
Mobilizes Deposits	Yes	Yes	Yes	No
Offers Insurance	Yes	Yes	Yes	No
Poverty Allieviation				
Clients crossing Poverty Line	n.a.	n.a.	n.a.	n.a.
Poor Clients served	100%	100%	100%	100%
Very' Poor Clients served	n.a.	71%	n.a.	n.a.
Women Clients	n.a.	23%	26%	n.a.
Avg. Loan per Borrower	$ 145.00	$ 151.00	$ 160.00	$ 202.00

BASIX takes a somewhat different approach than SHARE in its assessment of poverty alleviation and social impact. While it states its mission is “to promote a large number of sustainable livelihoods” it also states, “BASIX will strive to yield a competitive rate of return to its investors.” This statement differs from SHARE in that it balances both shareholder value and social impact. Even the wording of “promoting sustainable livelihoods” is different than that of SHARE which states directly that its focus is “the reduction of poverty.” This indicates that BASIX sees itself as a commercial entity that grows through access to mainstream capital. However, it has chosen as its business to target a low-income market where it can improve the opportunities and income earning potential of its clients, and thereby create social value. This does not indicate that poverty alleviation is any less important to BASIX, but that it sees its role as an enabler rather than providing relief. BASIX measures its poverty impact in two main ways: geographical operations and average loan size.

BASIX has assessed that 71% of its loans fall below approximately US$230 which it feels is a good indicator that roughly 71% of its customers are poor.[65] However, focusing on loan size might not be a good estimation of social impact for the reason that increasing loan sizes might actually be a positive indicator if it meant that the clients of the MFI are growing with the MFI and taking out larger loans. Depending on the MFI, growing loan sizes might be a natural result of the success of the MFI in growing with and retaining clients while also attracting new ones. If this is indeed happening, the loan size will most likely be growing, because a repeat loan of US$800 for example, might be four times as large as a new loan of around $200. Since we don’t have enough

[65] *BASIX Annual Report 2001*. (Accessed: March 2006); available from: http//:www.mixmarket.org.

information about the number of loans per year that are repeat loans at BASIX, we are unclear as to whether this is the reason BASIX has a higher loan size or whether it has more to do with its efforts to loan to small and medium enterprises that employ the poor and/or is simply because BASIX is reaching less poor clients than SHARE. We are therefore interested in understanding more than just the average loan size of an MFI, but what is driving that loan size. This requires MFIs to provide detailed information on what the sizes of their repeat and new loans are, and what percentage each of these represent of their overall portfolio.

In the delivery of its livelihood financial services, BASIX works on the premise that not all of the poor desire to be entrepreneurs. It feels that many of the poor actually prefer secure wage employment. Thus, the founding strategy for livelihood creation at BASIX was generating a combination of wage and self-employment. BASIX then targets both the rural poor, particularly the landless and women, to promote self employment as well as rural commercial farmers and non-farm enterprises that generate what the MFI considers as much needed employment for the rural poor. Such sustainable wage employment is located in commercial farms and in non-farm enterprises, often not owned by the poor.[66]

In considering this premise, we are then even more interested in BASIX's impact on its clients but also the indirect impact it might have on improving livelihood opportunities through job creation. We would be most interested in how many jobs have been created by the growth in commercial farm and non-farm enterprises that BASIX lends to and whether these jobs have improved the livelihood opportunities and the living standards of the poor they employ. We would also want to know what category of

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[66] (Surya Prakash Loonker, 8)

poverty the employees of these enterprises fall into. Are they the moderately poor? This question makes us more interested in devising a way to measure categories of poverty to see whether an organization such as BASIX is effectively having an impact on a wider range of poverty as we might suspect from its unique strategy. The concept of combined direct and indirect poverty alleviation is quite compelling, which adds to frustration that there is not yet a sufficiently developed means of measuring its impact nor the data gathered to do so.

Unlike SHARE however, BASIX's 2001 annual report does not include an up to date poverty impact analysis so it is much more difficult to assess poverty alleviation in any meaningful way, let alone even by such basic measures as clients crossing the poverty line. The only basic measures we have to estimate social impact are growth in BASIX's loan portfolio and borrowers per staff member as measures of greater outreach. BASIX's loan portfolio increased from $2,554,533 in 1999 to $13,009,883 in 2004 by 841% while its borrowers per staff member actually decreased from 160 in 1999 to 145 in 2004. As with SHARE, while growth in BASIX's loan portfolio indicates a growth in outreach it does not provide any meaningful analysis of whether or not BASIX is actually improving the living standards of the clients it is reaching, nor does it provide analysis of just how poor its borrowers are. To make any real conclusions about BASIX's poverty impact we would want to know whether or not BASIX is increasing the income and living standards of its clients and thereby helping them to move up and out of categories of poverty. This brings us back to the need for a basic platform across MFIs that measures poverty more precisely by dividing it into categories of poverty in order to better measure targeting and impact.

2.33 Organization & Management Analysis

This section widens the picture to include all the BASIX companies as they all fall under the same management structure in order to give a more accurate picture of the organizational and management structure of BASIX.

Strategic Vision

BASIX has a strong strategic vision both in terms clarity of mission and operational support for that mission. BASIX is in the business of improving livelihoods through the provision of financial services and support. Part of BASIX's strong strategic inclination might be attributed to its visionary founder whose good education and development experience bring vision and wisdom to the company. What is important for the future is maintaining this strong vision without the founder, so that it will continue long beyond his tenure. This will involve grooming a strong second tier of management, something MFIs often forget or neglect to do.

Management & Governance

The board of directors of BASIX is comprised of individuals with a wide array of relevant experience from the fields of finance and rural development. Six key board members including the three founders hold office year round while during the year individuals from Shorebank Corporation in the U.S. and Hivos-Triodos Fonds in the Netherlands were inducted into the board. Both of these organizations are Shareholders of BASIX. These individuals have very relevant experience and are diverse both in nationality and field of practice. M-Cril, a microfinance rating agency, rated BASIX's finance arm, Samruddhi an “alpha” indicating good systems and high safety. M-Cril’s rating of BASIX gave high rating grades in the categories of governance aspects and managerial performance.

Transparency

In regards to transparency, BASIX ranks highly. It’s audited financial statements and annual reports are the most detailed and clear for the reader with an overall high quality. Transparency in microfinance might be measured best to ease of access to information and the clarity of its presentation. The professional quality of BASIX’s financial statements is an indicator of the importance the organization places on sharing its information to investors and other interested parties. As previously mentioned, this might be attributable to the fact that BASIX was founded as an NBFC and therefore has had more extensive experience than SHARE and other NGOs in reporting financials. Generally, the greater the transparency, the more likely an organization is to access commercial funding. However, this is not to say that starting an organization as an NBFC has more advantages than starting as an NGO. It may simply mean that one of the benefits of doing so is that an MFI develops a fitness for good reporting and is therefore, more transparent. Transparency is so important in microfinance because it promotes greater efficiency. It is much harder to hide inefficiency and bad systems when an MFI must report its financials, management, and systems on an annual basis.

Human Resources

BASIX states that it believes that high quality human resources need to be deployed at the cutting edge to address the problem of promoting rural livelihoods in a creative manner. Therefore, the company selects people who combine practical skills and experience with analytical and conceptual abilities. BASIX then endeavors to employ staff that have management, technical, and commerce graduate experience and hires its field executives from reputable educational institutions and professional streams. This practice is a direct contrast to SHARE which sees such employees as a high cost to the organization. BASIX also employs a performance evaluation system called the Personal Learning Review (PLR) in which employees participate in retreats every six months and to undergo a personal review with their superiors in order to develop areas of improvement and opportunities for learning. Utilizing a system of performance evaluation that is participatory and promotes learning by all staff might be considered an indicator of good human resource management because it promotes learning by the staff and the organization. Another indication of this is training and induction. Along with classroom training, BASIX puts its new recruits through a rigorous induction program that covers the overall concept of the company as well as operational issues through a six month induction phase before field executives are selected.

Information Technology System

BASIX has developed technology with a local software company in India particularly for microfinance, its FAMIS software, which is the backbone of its operating system. FAMIS provides online accounting and borrower information to the company and is updated regularly. BASIX management believes that a successful back office and

MIS are critical to managing a retail portfolio such as that of BASIX. The company has also piloted a 'Sudama Card,' a computer with smart card reader and modem, in 2002 to integrate finance and technology in its rural lending. It is a point of transaction technology that allows customer service agents to capture financial transactions with accuracy and transfer it to Unit offices accurately and securely. This type of innovation in technology is becoming more and more important in microfinance as with any other industry because of the potential it has for the reduction of costs and improving efficiency[67].

Loan Methodology

BASIX's loan methodology is somewhat of a hybrid in that it considers itself in the business of improving livelihoods, in which 'livelihood financial services' is one piece. It places equal emphasis on the provision of agricultural business development services and technical services in addition to the provision of financial services, which includes credit but is not limited to it. BASIX operates under the philosophy that credit is not sufficient alone to guarantee an improvement in the livelihoods of the rural poor. It believes that other financial and technical services are necessary and can be provided on a revenue model in order to be sustainable. Therefore, BASIX offers several types of group and individual insurance products as well as savings to its clients. This type of flexibility and innovation might be considered one of the key strengths of the company. BASIX has had to innovate constantly in the pursuit of its complex mission which emphasizes both social and financial return. The corporate structure of BASIX, as well as its loan methodology, reflects this complexity. BASIX's research arm focuses its energy on

[67] BASIX Annual Report 2002. (Accessed: March 2006); available from: http://www.mixmarket.org.

identifying livelihood intervention opportunities for which its financial arm, Samruddhi, can implement through its "Livelihood Strategy," comprised of the equal provision of three services: livelihood financial services, institutional development services (technical assistance, capacity building), and agricultural business development services.[68] A description of BASIX's triad services are shown in the table.

BASIX Livelihood Triad Services[69]

LIVELIHOOD FINANCIAL SERVICES (LFS)	AGRICULTURAL/BUSINESS DEVELOPMENT SERVICES (AG/BDS)	INSTITUTIONAL DEVELOPMENT SERVICES (IDS)
Savings	Identification of livelihood opportunities	Formation of groups, federations, cooperatives, mutual benefit associations, etc., of producers
Credit for consumption as well as productive needs	Productivity enhancement	Capacity building of the above
Insurance, for lives and livelihood	Market linkages—input supply, output sales	Accounting and management information systems
Commodity futures, to reduce price risk	Local value addition	Performance management systems
Financial orchestration (arranging funding from multiple sources for the same subsector)	Risk mitigation (non-insurance)	

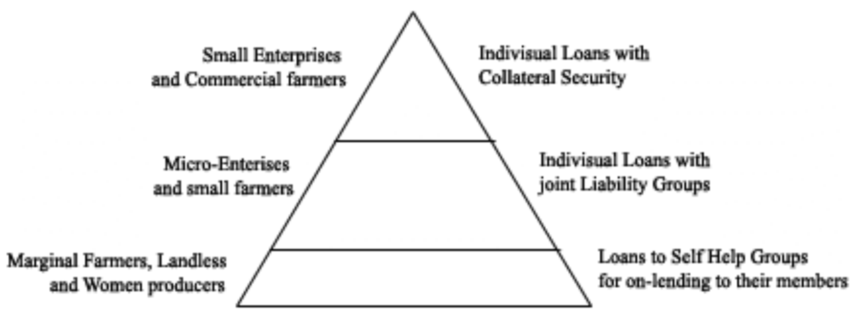
Once BASIX's research and development arm, Indian Grameen Services (IGS), identifies a potential livelihood intervention, a combination of these services are identified in order to develop a strategy that combines the right mix of financial services, AGBDS, and Institutional development services to impact the livelihoods of their clients. In BASIX's Livelihood Financial Services (LFS) approach, different channels are used to reach the needs of different segments of customers. These varied lending methods aim to reach the poor at reasonable transaction costs. Thus, two kinds of loans were developed:

1. Direct Loans extended to rural customers through a network of village based customer service agents (CSAs) and district Field Executives (FXs).
2. Indirect Loans given through intermediaries such as seed and fertilizer dealers.[70]

[68] (Surya Prakash Loonker,p.4)
[69] (Surya Prakash Loonker, p.5)
[70] (Surya Prakash Loonker, p.9)

The figure below gives a view of BASIX's products and the segments they are meant to target. BASIX targets small enterprises for employment creation through the provision of individual loans with collaterized security to the top of its customer pyramid, the non-poor. It then targets the middle of the pyramid, micro-entrepreneurs and small farmers whom we might estimate are the marginally poor or vulnerable with individualized loans to join liability groups (Grameen Model). For the bottom of its pyramid, whom we estimate are the "poorest of the poor," BASIX offers loans to self-help-groups for on-lending to members.

Market Segment-Focused Financial Products[71]



We might be especially interested in understanding whether or not BASIX is successful in targeting landless and women producers whom are supposedly the poorest individuals. There is reason to suspect that SHGs and NGOs are not even able to reach landless migrant laborers who form the "poorest of the poor" in India due to their migratory lifestyle. We would then be most interested in finding out exactly who within this

[71] (Surya Prakash Loonker, p.9)

category BASIX is actually able help through its SHG lending before we are even able to ask whether it has been able to improve their livelihood opportunities.

What is most interesting to note in BASIX's lending methodology is that in providing these loans, BASIX established a framework for its services, its livelihood triad, which provides value-additions such as agricultural business development services that are not available in conventional frameworks of microfinance delivery, such as that followed by SHARE. The theory behind this approach is that BASIX will have a greater impact on a wider range of the poor. If this is true, there it will be an extremely compelling discovery in the field of microfinance as to how to make credit effective. Unfortunately, it is early and the methods and data for measuring this impact have not been developed or made readily available.

2.4 Summary

BASIX is a fascinating organization which brings together both organizational structures of an NBFC (Samruddhi) and an NGO (Indian Grameen Services (IGS)) under a holding company in order to give itself the benefit of both donor funds for research and development as well greater access to commercial sources of funding. The financial analysis of BASIX shows an organization that despite having been an NBFC from the start has not fared as well as SHARE in terms of financial return. BASIX's profit margin in 2004 was 3%, its ROE of 0.10% and ROA 0.04% which are low compared to SHARE's profit margin in 2004 of 17%, ROE of 24.63%, and ROA of 3.15%. While this still indicates that being an NBFC has encouraged profitability at BASIX because of the fact that it is covering its cost of operations, it makes seems to indicate that the picture of financial strength of an NBFC can still vary widely. However, our small group of case studies show an greater tendency towards profitability in NBFCs versus NGOs, which we might tend to expect because of the fact that it is acceptable to NGOs to run at a loss in the pursuit of social return.

Despite its financial performance, BASIX's loan methodology is extremely compelling in that it is driven by the theory that delivering financial services along with other interventions and services will produce a greater sustained positive impact on the lives of a wider range of poor in India. We would be much less concerned about the lower financial returns, in fact even impressed, if we were able substantiate this theory through meaningful measurements of BASIX's impact on the various levels of poor both through direct and indirect methods of lending. If BASIX is indeed able to provide a much wider range of services to a wider range of poor individuals and have a sustained impact on a larger portion of the poor while still maintaining some level of profitability as a social enterprise, it would provide a compelling case for the wider replication of its livelihood triad strategy and organizational structure. It would also provide compelling reasons for considering the benefits of MFIs becoming NBFCs but also retaining a non-profit arm for the purpose of preserving one of the largest benefits of an NGO-MFI, the ability to innovate through researching and testing products that could enhance the lives of the poor in India.

3. SKS Case Study

3.1 Development of Organization

Swayam Krishi Sangam (SKS) employs the Grameen bank lending methodology like SHARE, but its operational approach is unique and provides a contrast to both SHARE and BASIX in terms of the successful drivers of micro credit delivery. SKS is a young MFI, which recently transformed into an NBFC and was established as an NGO in 1997 by Vikram Akula, a social entrepreneur and graduate of both Yale & Tufts Universities.[72] The mission of SKS is, "To empower the poorest of the poor to become economically self-reliant by providing financial services to poor women, through groups at the village level, in a self sufficient manner." SKS is most notable for developing the first MIS system among Indian MFIs for which it won awards. Its goal going forward is to raise money in order to scale up and reach 100,000 customers by 2007. Since its founding, SKS has delivered US$40 million in micro credit to over 150,000 women in Southern India through 45 branches and 500 employees.[73] SKS provides a useful addition to the case studies of SHARE and BASIX because it has only recently transformed into an NBFC and therefore its financials will reflect more of an NGO. Thus, we are interested in how it has fared as an NGO and what has driven it to transform. It then completes the picture of the various approaches to becoming an NBFC that an MFI can take and therefore, allows us to see a wider and richer array of benefits and costs. We can already begin to see that there is an even larger menu of options and paths an MFI can take and that the question might not even necessarily be NGO or NBFC.

3.2 Sources of Capital

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[72] *SKS Annual Report, 2001*. (Accessed February 2006); available from: http://www.mixmarket.org.

[73] *About SKS*. (Accessed 03/04/2006); available from: http://www.sksindia.com/background.htm.

SKS transformed from and NGO into an NBFC in January 2005 order to improve financial sustainability and access commercial funds in order to scale up outreach to 1,000,000 clients by 2010. SKS cited the benefits that it now enjoys as an NBFC as:

1. Greater access to funds as commercial lenders have greater comfort lending to a regulated company with transparent ownership.
2. A diverse funding source because as an NBFC, SKS can raise equity and offer financial returns, enabling it to access commercial investors and international capital markets.
3. Greater Outreach Potential due to increased access to funds[74].

SKS has historically sourced most of its capital from donors and loans. This isn't surprising considering that it is a younger MFI than SHARE or BASIX and this transformed into an NBFC very recently. This is evidenced by a debt to equity ratio in 2004 of 11,988% which seems high compared to its 2.4% level in 1999. This indicates that its primary growth vehicle has been debt. In 2001, SKS indicated that 40% of the company is owned by its clients with 15% of it owned by employees and the rest by a group of institutional and individual investors[75]. We would expect to see that SKS's founding base will diversify and increase with its transformation to an NBFC as is the case with BASIX. However, we will be especially interested in whether this transformation will result in sustained profitability and social impact.

3.3 Analysis of benefits & costs of Transformation

3.31 Financial Analysis

Continuing in line with our analysis of SHARE and BASIX, the financial analysis of SKS is drawn from SKS's profile on the MixMarket using the selected ratios and time

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[74] (About SKS)
[75] (About SKS)

period to allow for better comparison. The only ratios calculated from audited financial statements are Net Interest Margin and Capital Formation Rate.

SKS Financial Analysis Summary Table[76]

Ratio	Benchmark (MicroBank Bulletin)	2004 fiscal year end 31/03/05 (NGO/NBFC)	2003 fiscal year end 31/03/04 (NGO)	1999 fiscal year end 31/03/00 (NGO)	1998 fiscal year end 31/03/99 (NGO)
Operating Efficiency					
Operating Expense Ratio	**19%**	12%	12.92%	59.12%	n/a
Cost per Borrower	n.a.	$ 16.20	$ 19.70	$ 418.60	n/a
Borrowers per Staff	**185**	**254**	**184**	**8**	**n/a**
Loan Loss Protection					
# of Total Shareholders	n.a.	n.a.	n.a.	n.a.	n.a.
Growth					
Gross Loan Portfolio	**$9,844,044**	$7,604,876	$2,702,826	$15,135	$4,705
Loan Portfolio Growth Rate		181%	17758%	222%	n.a.
Profit Margin	**23.50%**	**-0.21%**	**-3.12%**	**-675.98%**	**-1204.12%**
Capital Adequacy					
Leverage (Debt/Equity Ratio)	**190%**	11988%	9555%	8.29%	2.40%
Total Assets		$ 9,130,885	$ 4,089,178	$ 103,473	$ 45,191
Asset Growth		123%	3852%	129%	n.a.
Asset Quality					
Portfolio at Risk (PAR)	**1.30%**	**5.18%**	**0.00%**	**0**	**n.a.**
Write-off Ratio	n.a.	0.00%	0.00%	0.00%	0
Capital Formation Rate	n.a	0.0000%	0.86%	0.00%	n/a
Sustainability & Profitability					
Return on Equity (ROE)	**16.60%**	**-6.50%**	**-11.56%**	**-59.44%**	**n.a.**
Return on Assets (ROA)	**7.70%**	**-0.06%**	**-0.69%**	**-55.85%**	**n.a.**
Net Interest Margin		**39.89%**	**56.48%**	n.a.	n.a.
Operating Self Sufficiency (OSS)	**153%**	**99.79%**	**96.98%**	**12.89%**	**7.67%**

SKS's financials raise a number of red flags. However, we might keep in mind that it is a small company with only four years of operations and may overcome these with time. It has grown fast with a loan portfolio of $2,702,826 in 2003, and increase of 17,158% from its 1999 level of $15,135. Its loan portfolio in 2004 was $7,604,876, just below the benchmark of $9,844,044. This rapid growth has reasonably impacted portfolio

[76] *SKS Profile*. (Accessed: March 2006); available from: http://www.mixmarket.org.

at risk which accordingly rose from 0% in 1999 to 5.18% in 2004 far above the benchmark of 1.30%. This shows that SKS's rapid growth is resulting in a decline in the quality of its loans and it might want to manage and reduce its PAR in order to have more managed growth. SKS seems to have relatively poor productive use of assets and impact on shareholder value, something that is mitigated by the fact that it is a very young company. SKS's return on equity during the period in which it transformed from 2004 to 2005 was -6.50%, which is substantially lower than its ROE of -59.44% in 1999. This is a positive trend but shows that as an NBFC SKS is actually reducing shareholder value and we would hope to see improve in the next several years. Another positive trend is that SKS's return on assets was substantially improved from -55.85% in 1999 to -0.06% in 2004. In line with this, SKS's operating self sufficiency was 99.79% in 2004 up from 12.89% in 1999 and 7.67% in 1998 but is still low compared with the benchmark of 153%. SKS's Net Profit Margin increased from -675% in 1999 to -0.21% in 2004 which is a very positive sign but again is far below its peer average of 23.50%. Overall, SKS could show a lot of promise if it is able to manage its growth properly and improve some of its financials. This will mean that its next several years will be critical in its ability to develop proper systems and improve its ratios. In its 2001 annual report, SKS states that it charges interest on its loans so as to cover its costs in order to avoid donor dependency. The specific interest rate it charged was not readily available. However, SKS seems extremely close to becoming profitable. If the trend in its financials continues it should become profitable in the next year and could have the potential for very positive and substantial growth. SKS's negative financials are not surprising for several reasons, first because it has been an NGO almost entirely during the period in which these ratios have been calculated and therefore was not driven by the profit motive, secondly because it is a very young organization and therefore naturally would take at least several years to start generating returns due to the capital investment needed to start operations.

3.32 Social Impact Analysis

SKS Microfin Ltd. Social Impact Analysis Summary Table				(US$)
Indicator	**2004** (NGO/NBFC)	**2003** (NGO)	**2002** (NGO)	**1999** (NGO)
Outreach/Scale				
$Amt loans per year	$7,604,876	$2,702,826	1,077,207	$ 15,135
# Approx. loans since inception	2,794,241	n.a.	n.a.	n.a.
$Amt loans since inception	$ 40,000,000	$ 4,143,873	$ 1,441,047	$ 19,840
Borrowers per Staff Member	254	184	185	8
Number of Products offered	6			
Mobilizes Deposits	No	No	No	No
Offers Insurance	No	No	No	No
Poverty Allieviation				
Clients crossing Poverty Line	n.a.	n.a.	n.a.	n.a.
Poor Clients served	93%	n.a.	100%	100%
Very' Poor Clients served	n.a.	71%	n.a.	n.a.
Women Clients	100%	100%	100%	100%
Avg. Loan per Borrower	$ 103.00	$ 109.00	$ 97.00	$ 79.00

For SKS, like SHARE, it is integral to its strategy and mission to target poor clients and women. The words, “To empower the poorest of the poor” in its mission are a strong statement that SKS endeavors to *empower* the very poor and not simply provide them with relief. SKS operates with the dual goal of generating financial returns for sustainability and empowering the poorest of the poor in India. Accordingly, as shown above, SKS geographically targets poor populations and claims 100% of its clients served are considered poor as well as being women. As with SHARE, SKS states that its reasons for targeting women are that they are the most marginalized and tend to use resources more productively than men.[77] The question as to whether SKS can really reach the “poorest of the poor” remains unanswered as of yet due to the lack of meaningful

[77] SKS Annual Report, 2001.

measurements of that impact. Again, we are left wanting of information on what kind of poor SKS targets and whether it is having any sustained impact on the income and living standards of its clients. As mentioned, in India the ‘poorest of the poor’ are often landless migrant laborers who travel to work for half the year, making it extremely difficult to bring them into the groups that Grameen style lending requires. This may prove especially difficult as SKS endeavors to achieve financial sustainability and access commercial funds. Experience shows that sometimes reaching the poorest of the poor is a challenge even for NGOs let alone MFIs who are sometimes challenged by financial sustainability. It seems safe to say that SKS has made a sufficient effort to target the poor, but whether it has reached the poorest of the poor and had any impact on their poverty status is yet unclear.

3.33 Organization & Management Analysis

Strategic Vision

The strategy of SKS to achieve its mission is to help poor people access small, low interest loans during times of crisis, so that they can avoid falling into debt traps. SKS endeavors to offer the poor alternatives from Banks that require collateral and bureaucratic procedures as well as moneylenders that charge exorbitant interest rates. The company does so by delivering collateral-free microfinance in the form of small loans and savings facilities to the doorstep of the poor. SKS seems to have a strong strategic mission but there is some uncertainty about its ability to balance that mission while attempting to transform into a more financially sustainable and commercially oriented institution. The rapid growth of the organization shows its commitment to outreach and scale in the service of the mandate of microfinance. Our main concern surrounds its ability to balance its ambitious mission to serve the "poorest of the poor" in a financially viable manner.

Management & Governance

SKS has a board of directors composed of seven members about which not much was said in the 2001 annual report. Thus, the diversity and strength of SKS's board is somewhat unclear. However, the members of SKS's Foundation, its fundraising arm, are a diverse group of professionals and academics from India and the U.S. SKS's management also appears to be quite strong based simply upon ranges of experience in business and development and education.

Transparency

The transparency of SKS seems rather good in that its financial statements are readily available and up to date, however not all information was outlined as clearly as that of BASIX or in some instances SHARE. Information detailing governance, human resource management, and poverty impact analysis as well as poverty outreach strategy was hard to extract and not readily available. Again, this may simply be a factor of the size of the company and its length of time in operation.

Information Technology System

SKS has won numerous awards for its innovation in technology for microfinance and particularly its management information system, which it pioneered in India. SKS's

MIS system is the cornerstone of the organization's technology platform in that it enables the company to manage small transactions efficiently, to increase staff productivity, reduce operational costs, etc. It is designed for simple use, scale, and integrates all the accounts of the organization. SKS created a technology management team which has developed software applications to manage client's portfolios and accounts. In addition, SKS developed a Smart Card program that enables technology to replace the manual passbooks and collection sheets with Palm Pilots and smart cards that serve as "electronic passbooks." While the effect of such technologies is not yet clear, the endeavor to employ technology to improve the impact and efficiency of the organization is a positive sign.

Loan Methodology

Like SHARE, SKS's loan methodology is to offer solidarity loans to groups of women and require some small mandatory savings and use peer pressure to ensure repayment. The main three loan products it offers are income generating loans, group fund loans, and emergency loans. However, SKS has adapted the Grameen methodology by integrating some industry practices and some of its own innovations, such as technology development. Currently, SKS seems to offer little in terms of additional products. This loan methodology in comparison to BASIX is much simpler. We would be most interested in the comparison of poverty impact and profitability of the various loan methodologies of SHARE, BASIX, and SKS in order to make some sort of meaningful statement about what kind of loan methodologies are most effective. We would then need to decide what tradeoffs of profitability and poverty impact are acceptable. This provides compelling reasons for the need to develop better measurements of these impacts in order to create a matrix of trade-offs and MFI may face when developing its loan methodology and organizational structure.

3.4 Summary

The picture we have of SKS is of a very young NGO in India that has only very recently transformed to an NBFC, mainly for the reason of accessing larger and more diverse funding in order to have greater outreach. As a young NGO, SKS's financials show that it is not yet profitable but we might expect it to be in the next year or so. We might note than that its rapid growth has occurred as an NGO, which is evidence that with a good donor base an NGO-MFI can indeed have large outreach but that there may be some level of 'ceiling' on that outreach at which point, as with SKS, an NGO-MFI might feel compelled to transform into an NBFC in order to continue to grow. However, we are again left with an incomplete picture of the quality of SKS's growth in terms of poverty impact because we are unable to find any meaningful measurements of SKS's impact on clients or even what categories of poverty its clients it falls into.

IV. Chapter IV: Key Findings and Comparison of Case Studies

5.1 The Costs and Benefits of becoming an NBFC

The case studies illustrate trends which are helpful in identifying the benefits and costs of an NGO transforming to a Non-Bank Financial Company (NBFC). From a financial analysis standpoint, we saw a correlation with an MFI being an NBFC and greater profitability. For SHARE, the decision to become an NBFC was correlated with a move from a negative to a positive profit margin and an over 600% increase in its loan Portfolio in a four year period. For SKS, the decision to transform to an NBFC recently was correlated with a substantial improvement in its negative profit margin to almost breaking even. If this trend continues, we would expect SKS to become profitable in the next fiscal period and its first year as an NBFC. However, while we see profitability going up we are less clear as to what to make of it. If we see and increase in profitability accompanied by a decrease in operating expenses, as is partly the case with SHARE and definitely the case with SKS, then we might attribute some of the increasing trend in profitability to an increase in efficiency. If this is not the case, we might then attribute increases in profitability to a number of things such as charging higher interest rates, providing fewer services, and lending larger loans to better off borrowers, all of which cause us to worry about changes in the poverty impact of the MFIs. However, as mentioned earlier, this may not be the case if the MFI is able to find creative and innovative ways to maintain its reach to poorer clients through cross-subsidy of its loans to better off borrowers. We are then interested in exactly how each MFI's loan methodology adjusts with transformation, especially in their targeting of poor clients.

The astronomical growth of SKS's loan portfolio shown by an increase in its loan portfolio of approximately 17000% in a four year period, suggests that growth in loan portfolios is quite possible while an MFI is an NGO but that a 'ceiling' might exist at which point an MFI might need commercial sources of capital to continue growing. The case of BASIX is a more complex case in that it started as an NBFC but later on added a non-profit component under its holding company. Even while having started as an NBFC, BASIX's NBFC arm Bhartiya Samruddhi Finance Limited (BSFL) is not as profitable as

SHARE which transformed from and NGO to an NBFC. This may have something to do with the fact that BASIX has a higher cost per borrower ($27.90 in 2004 compared to SHARE's $17.10 the same year) and a lower number of borrowers per staff (145 in 2004 compared to SHARE's 185 that year). The comparison of SHARE, BASIX, and SKS indicates that while there seems to be a high correlation of general profitability and an MFI being an NBFC, the degree of that profitability will depend on various factors such as an MFI's ability to keep costs low and operate efficiently and more productively.

In each of the case studies all three MFIs, even with varying missions and loan methodology, decided that the only way to grow and source the necessary capital for operations was to become non-bank financial company (NBFC) and thus, a regulated institution. This indicates that MFIs in India see the ability to access commercial funding as a direct benefit of becoming and NBFC. They see this as a benefit because, as stated by SKS, becoming an NBFC enables them to access larger amounts of capital for growth and outreach. Many MFIs, like SKS, define success in terms of the number of poor they are able to reach. To do this, they feel that they need greater funds for on-lending which, unlike commercial banks, they cannot get from mobilizing deposits. Sourcing commercial funds can be difficult for an NGO-MFI because commercial lenders and investors require published financial information, such as audited financial statements and accredited ratings, in order to asses the risk of a company. More importantly, they also lend or invest on the basis of profitability, which to banks is the key factor that enables a company to repay loans and/or create shareholder value. While there is no reason an NGO couldn't publish financial statements and get an accredited rating, it would still be harder to convince commercial lenders and investors to provide funds to an organization that is not driven by the attainment of financial return for the reasons stated. Also, NGOs have much less of a direct incentive to publish annual financial statements because there is no legal requirement and the process is costly and time consuming. Most NGOs then, tend to not publish these statements.

In contrast to the financial analysis of the costs and benefits of transforming to an NBFC, assessing the social benefits and costs of becoming an NBFC-MFI is much more complex and difficult due to the general lack of data and tools used to measure poverty alleviation in any meaningful way. One might even say that if NGOs, which might have more of an incentive to measure poverty alleviation from donors, are not measuring poverty alleviation in the way we might hope to see, NBFCs will have even less of an incentive to do so. We might consider that a cost of becoming an NBFC might be the reduced incentive to target the ‘poorest of the poor’ but not something that necessarily prohibits it. We might suppose this because the strong incentive for an NBFC to be profitable might result in MFIs gravitating towards lending to those categories of ‘moderlately poor’ or ‘vulnerable’ individuals to whom an MFI can lend to more profitably rather than the ‘poorest of the poor’ who we might suppose have the highest cost of lending. Still, to say this for sure, we would need to have accurate data on the categories of the poor that MFIs are lending to, which is currently not widely reported by MFIs in India in any comparable way. Also, to say anything meaningful about the poverty alleviation impact that both NGO and NBFC MFIs are having on the poor we would not only need to see what categories of the poor they are targeting but whether they are having any sustained impact on the income levels and living standards of those clients. The case studies illustrate that we are currently relatively far from having the sufficient information to assess this. Unfortunately, this presents us with an incomplete picture of the social costs and benefits of an MFI becoming an NBFC versus an NGO in India. While we can say that overall the financial analysis in our case studies presents positive benefits of becoming and NBFC, we are less clear about the social benefits and costs of such a transformation.

There is much more that can be learned about the impact of private MFIs on the poor than we currently know. Evidence from the case studies illustrates that no uniform or concrete approach to social impact assessment is currently being used. In the case studies, each MFI had its own way of assessing impact, making it more difficult to compare MFIs. The author's experience when visiting BASIX in India was that social impact was as much a result of the loan methodology, variety of products offered, and the flexibility of those products as the geographical targeting of poor populations. The poor have as much need for savings and insurance service in order to build capital and manage risk as they have for credit. Credit is often not enough to have a lasting impact on the poor in the sense of improving their livelihoods, a goal which is somewhat different than poverty alleviation in that it focuses on permanently improving the earning opportunities of the poor. In this sense, the addition of technical and agricultural business development services as well as capacity building to the provision of credit, savings, and insurance might have a much greater impact on the social value created by an MFI. However, this is hard to determine when there is a general lack of information on the impact these MFIs such as BASIX, SHARE, and SKS are having on their clients.

Lastly, from an organizational standpoint we can identify some more qualitative and less directly quantifiable benefits and costs of becoming an NBFC from the case studies. One of the most cited benefits of an NGO-MFI is the flexibility an NGO has to innovate and test products due to the lack of rigidity and structure that often characterizes regulated institutions. Therefore, another cost of transformation to an NBFC we might identify is the loss of flexibility an MFI has to test products, a costly process, which might be more difficult to do when the pressure to be profitability exists. This point is evidenced in the case of BASIX, which created a separate non-profit company for the purpose of researching and developing interventions that its NBFC arm, Samruddhi, could eventually implement. This seems to provide evidence that MFIs see the benefit of having the flexibility of a non-profit. Also, we might identify from the cases studies that greater efficiency and transparency as benefits of transforming to an NBFC. While this does not suggest that NGOs could not be efficient nor transparent, it indicates that NBFCs have a much higher likelihood to publish financials statements and annual reports detailing their management practices, technology platforms, and organizational strategy and that this greater transparency fosters better overall systems. This is evidenced in the case studies by the fact that both SHARE and SKS began reporting just before or directly after they transformed into NBFCs. The first financial statements for SHARE available are in 2002, a couple years before it became an NBFC. SKS's earliest published financial statements in 2003, two years before transformation. We might suspect that greater transparency fosters better systems because MFIs are forced to document and publish detailed information on their financial and management systems and therefore the quality or lack thereof of such systems. MFIs might feel more impelled then, to improve their systems continually.

5.2 Wider Implications for Microfinance in India

5.23 MFI Best Practices

Some general best practices that were highlighted in the case studies were use of technology to lower costs, strong strategic mission that balances social impact and financial sustainability, transparency, and strong management. All three organizations have more or less transformed themselves into social enterprises, meaning that they have a dual mission of social impact and financial sustainability. The only way an organization can be successful in balancing dual goals is to have a strong mission that is clearly communicated to all stakeholders. Each of the organizations studied had relatively clear mission statements that outlined their desired social impact and they aligned their operations to carry out that mission. Balancing dual goals can be a tricky balance for MFIs as they undergo the transformation from an NGO to an NBFC. However, it's extremely important because any undue weight on one goal results in an organization which is not mission-centered and more vulnerable to "mission drift." Strong and visionary upper management is a common denominator for any successful company. Successful MFIs in India all draw their sense of mission from a visionary founder and thus, there is concern about the grooming of a second-tier of upper management that can continue to perpetuate the vision of the organization. This is important to the focus and success of such MFIs, especially when they endeavor to grow and attract capital. Strong management is very important to investors and lenders because it is seen as a general indicator of organization strength.

5.24 Constraints to Growth

The major constraints identified in the case studies that seem to be facing microfinance in India are greater and more diverse sources of funding, a meaningful set of poverty impact indicators in order to make meaningful statements about social impact, and lack of an enabling policy environment for microfinance. In terms of an enabling policy environment, the main thing that MFIs can do is to work together with regulators to ensure that there is an understanding about the needs and challenges of MFIs. MFIs in India, including those mentioned in this study, have formed an association and self-regulatory body, Sa-Dhan, which provides a platform for communicating ideas jointly to the Reserve Bank of India and other authorities[78]. The more that the government and central bank understand the nature of the business and what constrains growth, the better they will be able to strike the balance between enabling growth and protecting the poor. This might be done by setting a minimum standard of regulation for MFIs but refraining from restrictive and inflexible regulation such as interest rate caps or prohibitive restrictions on foreign investment. Positive regulation such as liquidity requirements and capital requirements can sometimes ensure that MFIs are not taking on risk so as to jeopardize continuing operations. Some minimum regulation creates a sense of accountability for MFIs, placing them on a common platform and creating incentive to better manage risk. This can make a big difference to the quality of the services offered the poor and thus, the potential microfinance as a field has for really improving the lives of the poor.

V. Conclusion

[78] B. R. Bhattacharjee & Steven Staschen, p. 6.

An in depth look at Microfinance in India through the case studies of three of the largest MFIs in the country gives a picture of microfinance organizations as only one piece of a larger puzzle. Independent Microfinance institutions whether NGOs or NBFCs are one part of a much larger effort in India to provide the poor with access to financial services. When compared to the wider SHG bank linkage movement in India, private MFIs have had limited outreach. However, we have seen a recent trend of larger microfinance institutions transforming to or starting up as Non-Bank Financial Institutions (NBFCs). The purpose of this thesis paper has been to take in depth look at what this tells us about the changing face of microfinance in India through a cost benefit analysis of MFIs transforming to or starting as an NBFC. The case studies of BASIX, SHARE, and SKS brought out that doing such a cost benefit analysis is much easier from a financial analysis and strategic standpoint than from a social impact standpoint due to the lack of data and methods used to measure poverty alleviation impact of MFIs.

We discovered that on the whole, the financial analysis of theses case studies showed positive benefits of becoming an NBFC, such as greater profitability, greater access to commercial sources of funding, and therefore greater outreach in terms of loan portfolio size and clients reached. From an overall organizational standpoint, we see that the case studies illustrate a tendency of an NBFC-MFI towards greater transparency and efficiency in systems. However, we are pretty unclear as to the impact of becoming an NBFC on poverty alleviation. While some might posture that there is a tendency for the transformation from an NGO to a regulated financial company would hurt an MFI's poverty impact, we see no evidence of this in the case studies. Although, we see no evidence of greater or sustained poverty impact either, as we find inadequate measures of assessing the poverty impact of these organizations. Therefore, we conclude that there is a need for a common platform in India for MFIs to measure both the categories of poverty they are targeting as well as whether or not they are having a sustained impact on the income and living standards of their clients. With such information in our hands, we would be in a much better position to say meaningful things about what Microfinance has done and might be able to do for the poor in India. The changing face of microfinance in India appears to be positive in terms of the ability of microfinance to attract more funds and therefore increase outreach, and we are now interested in measuring how this positions microfinance in terms of poverty alleviation and social impact going forward.

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