MIX Microfinance World:
Social Performance Practice in India: Development Goals

This is the first installment of a two-part series focused on the performance of Indian MFIs reporting social data to MIX.

Introduction

As of mid-July 2014, three quarters of the Indian MFIs with fiscal year 2012 (FY12) financial data on MIX Market had also reported on social performance.[1] This wealth of data, as well as India's importance to the global microfinance sector, provides the backdrop for the present analysis Indian social performance management (SPM) practices.

The article begins by explaining how we selected our sample of Indian MFIs and provides some basic financial and institutional information about them. It then discusses their ability to track and report on social outcomes related to specific development goals. Finally, it hones in on two of the most popular of these goals—financial inclusion and poverty reduction—before analyzing whether a relationship exists between the gender composition of MFI staff and the development goal of gender equality and women's empowerment.

The article concludes that:

- Indian MFIs, like their peers in other countries, still have difficulty reporting outcomes related to their social goals, a sign that MFI social performance management practices remain focused on procedures rather than outcomes;
- Outcome reporting in India is highest for the goal of poverty reduction, albeit this reporting is not consistent and gaps in data quality exist;
- Women staff members are still underrepresented at the field and management levels of Indian MFIs—a trend especially observed in South Asia—but less so at the board level.

General profile of Indian MFIs citing at least one development goal to MIX

The majority of our analysis is based on the 60 Indian MFIs that have reported on at least one development goal to MIX.[2] The idea behind limiting our sample size to these 60 MFIs is that doing so allows us to assess whether MFIs' social goals are aligned with their operations.

The institutions that comprise our sample are relatively diverse: spanning outreach levels from small to large and ages of new to mature as measured by MIX's peer group divisions.[3] They also represent a

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[1] As of mid-July 2014, this is the latest complete annual data set available on MIX Market, covering the Indian fiscal period of April 1, 2012–March 31, 2013. While some FY13 data is available for Indian MFIs, data collection for the period April 1, 2013–March 31, 2014 is currently ongoing.

[2] MFIs report to MIX on a voluntary basis and, therefore, the availability of both types of data—social and financial—varies across MFIs.

variety of legal statuses, with slightly more than three-quarters registered as either nonbank financial institutions (NBFIs, usually called NBFCs in India) or nongovernmental organizations (NGOs).

Within this sample, 43 MFIs reported basic financial information to MIX in FY12. This subset served about 68 percent of all Indian borrowers on MIX Market in FY12 and had about 69 percent of all Indian outstanding loans. In absolute terms, these 43 MFIs served approximately 19 million active borrowers and had an outstanding portfolio of around US $3.1 billion at fiscal yearend 2012 (FYE12).[4] As the majority of MFIs in India currently are not permitted to accept and mobilize deposits, it should come as no surprise that only two MFIs in our sample represented a modest US $42 million in voluntary deposits from approximately 717,000 clients at FYE12.

We assessed median financial performance of our sample MFIs from FY10 to FY12 for the following four parameters: profitability, risk, efficiency, and productivity. Within profitability, we looked at three specific metrics: return on assets (ROA), return on equity (ROE), and gross profit margin. All three exhibited a dip between FY10 and FY11[5] but, while ROA and gross profit margin bounced back in 2012 to surpass their 2010 levels (hitting 1.2 percent and 7.7 percent, respectively), 2012 ROE still lagged behind 2010 levels by 1.16 percentage points. Turning to risk, the short-term levels of risk of these institutions fell between FY10 and FY12, with PAR30 values decreasing from 1.4 percent to 0.7 percent. Despite taking a slight dip in FY11, the operational self-sufficiency of the sample—measured by dividing revenue by organizational costs—increased slightly from 107 percent to 108 percent between FY10 and FY12. Finally, productivity, as measured by number of borrowers per loan officer, increased from approximately 411 to 478 between FY10 and FY12.

Reporting on goals versus outcomes

The logic behind tracking outcomes related to specific social objectives is that doing so enables an institution to know whether these goals are being met—or even approached—and, hence, allows it to modify its operational strategies in light of empirical results. However, as in many countries, tracking outcomes related to social goals remains a problem for the Indian MFIs reporting to MIX: these institutions have a rate of outcome reporting slightly higher than the South Asian average when it comes to the goals of existing business growth and poverty reduction, but lower rates for gender equality and employment generation.

Table 1 below lists the outcome indicator associated with five of the most common development goals and Figure 1 shows outcome reporting in India, South Asia, and the world for institutions citing these goals.[6] This comparison reveals that India is almost exactly in line with global rates of reporting and, for some development goals, Indian MFIs do a better job reporting respective outcomes.

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[3] Outreach peer groups are Small (number of borrowers < 10,000), Medium (10,000 ≤ number of borrowers ≤ 30,000), and Large (number of borrowers > 30,000). Age peer groups are New (one to four years old), Young (five to eight years old), and Mature (more than eight years old). More information on MIX's benchmarking peer groups is available here: http://www.themix.org/sites/default/files/Methodology%20for%20Benchmarks%20and%20Trendlines.pdf (July 16, 2014).

[4] MIX considers the fiscal year of institutions with an FYE from Jan 1–June 30 to be part of the previous fiscal year, while FYEs from July 1–December 31 are counted as part of the current fiscal year. For example, data from MFIs ending their fiscal year on March 31, 2013 are considered to be FY12 because this FYE is before June 30, 2013.

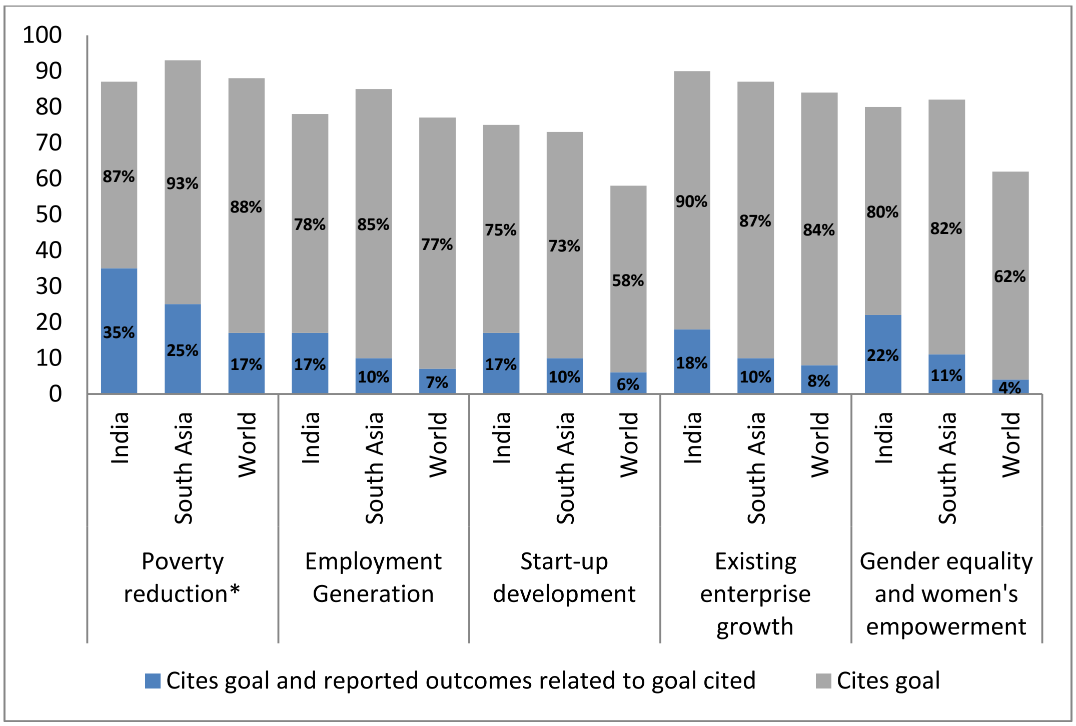
[5] ROA fell from 1.1 percent to 0.8 percent, ROE from 5.4 percent to 2.5 percent, and gross margin from 6.6 percent to 4.6 percent.

[6] Both Table 1 and Figure 1 exclude financial inclusion—the most popular goal—because MIX and the SPTF have not yet created outcome indicators for this goal and there is no satisfying proxy among MIX's current suite of SP indicators. To address this issue, MIX has begun developing FINclusion Lab, a platform that provides microfinance stakeholders the opportunity to identify problems and devise solutions for increasing financial inclusion in select countries through

Table 1: Development goals and their associated outcome indicators

DEVELOPMENT GOAL	OUTCOME INDICATOR
Growth of existing businesses	Number of microenterprises financed (new and existing) and number of clients sampled
Start-up development	Number of start-ups financed and number of clients sampled
Poverty reduction	Percent of clients below a certain poverty line at entry or at a given point in time (proxy)
Gender equality and women's empowerment and	Number of clients served by nonfinancial women's empowerment services (proxy)
Employment generation	Number of jobs created and number of microenterprises sampled

Figure 1: Top five development goals (excluding financial inclusion) of Indian, South Asian, and World MFIs and level of outcome reporting related to these goals (FY12)



**Data from 2010-2012 were used to analyze outcome reporting for the poverty reduction goal, the reason for which is detailed in Footnote 12.*

Focus on financial inclusion

Although the development of definitions and tangible metrics for financial inclusion is a work in progress, one way to examine the alignment of operations with this particular objective is to look at an MFI's "scope" of outreach[7]—that is, at the variety of its financial product and service offering. Such a

interactive tools and visualizations. New tools and resources to analyze India's financial inclusion indicators will be available at the end of August at: http://finclusionlab.org/country/india/.

[7] Mark Schreiner, "Aspects of Outreach: A Framework for the Discussion of Social Benefits of Microfinance," *Journal of Institutional Development* 14 (5): 591-603 (2002).

measure is admittedly rough, but greater product diversity is a good indication that financial institutions are meeting a greater variety of client needs. Table 3 provides a snapshot of the menu of products and services offered by the Indian and South Asian MFIs that reported SP profile data to MIX.

Table 3: Financial product and service profile of Indian and South Asian MFIs[8]

Indicator	India (n=43)*	South Asia (n=108)*
Percent of MFIs offering only microcredit loans for microenterprises	13%	10%
Average loan balance per borrower/GNI per capita (PPP; FY12)[9]	11%	12%
Percent of MFIs offering voluntary savings products of any sort	13%	48%
Average voluntary deposit balance per depositor/GNI per capita (PPP;FY12)[10]	4%	5%
Percent of MFIs offering voluntary insurance	45%	33%
Percent of MFIs offering savings facilitation services	15%	17%
Percent of MFIs offering other financial services of any sort[11]	25%	40%

**Number of observations is balanced by indicator*

Table 3 exhibits both strengths and weaknesses in the scope of Indian MFIs' financial product and services offering, including the following:

- More than one in ten Indian MFIs reporting SP profile data offers only a single credit product type, namely microcredit loans for microenterprises, and no other financial service. This suggests that many Indian institutions—proportionately more than in South Asia as a whole—are still operating under the notion that "one size fits all" when it comes to financial services provision.
- Due to regulatory constraints, far fewer microfinance clients have access to formal savings in India than elsewhere in South Asia.
- The level of voluntary insurance provision in India is greater than that of South Asia. Specifically, over 70 percent of these voluntary insurance offerings go beyond credit life insurance, with 27 percent include health insurance and 20 percent including agriculture insurance.

[8] It should be noted that annual financial data for only 108 of the 175 South Asian MFIs (and as previously stated, 43 of the 60 Indian MFIs) were made available for FY12.

[9] Average loan balance per borrower = value of gross loan portfolio / number of active borrowers. This figure is then divided by GNI per capita (PPP) on the basis of the World Bank's 2012 GNI per capita (Atlas method, current US$) figures are available here: http://data.worldbank.org/indicator/NY.GNP.PCAP.CD (July 23, 2014).

[10] Average voluntary deposit balance per depositor = value of voluntary savings accounts / number of voluntary depositors. This figure is then divided by GNI per capita (PPP). Note that India's low figure reflects the legal status constraint of not being allowed to mobilize savings, which leave clients with very few formal ways to save.

[11] Other financial services include mobile banking services, microleasing, remittance services, and debit/credit card services.

Focus on poverty reduction

Out of the Indian institutions that cite poverty reduction as a goal, 33 percent have reported client poverty data to MIX at least once between 2010 and 2012.[12] Although a robust analysis of MIX's poverty data is difficult due to heterogeneous measurement tools and poverty lines (as well as low levels of reporting overall), Indian MFIs' relatively low average loan balance per borrower/GNI per capita (Table 3) suggests that the poverty profile of Indian clients is approximately similar to that of their regional peers. Also, the eleven MFIs that have reported to MIX using the Grameen Foundation's Progress out of Poverty Index™ (Grameen PPI™) evidence a median depth of outreach in line with or above national averages (Table 4).

Table 4: Grameen PPI measurements reported by Indian MFIs for three poverty lines (n=60, FY10-12)

Poverty line	n=	Percent of clients BPL (median)	National average[13]
National poverty line	2	36.5%	21.9%
US $1.25/day 2005 PPP	3	58%	32.7%
US $2.00/day 2005 PPP	5	73%	68.8%

Focus on women's empowerment and gender equality[14]

As is the case with financial inclusion and poverty reduction, there is significant discrepancy between the number of Indian MFIs that cite women's empowerment and gender equality as a goal and those that cite this goal as well as report outcomes related to it (80 percent and 22 percent respectively, Figure 1).

One lens through which to assess MFIs' level of commitment to this goal is by looking at the gender composition of Indian MFIs' personnel and board. The overall representation of women at the staff, management, and loan officer levels of Indian MFIs that reported to MIX were eighteen, seven, and seventeen percent, respectively. Given that these institutions served about 26.4 million female borrowers at FYE12, these low percentages lead one to question whether it is possible for an institution to effectively pursue the goal of women's empowerment and gender equality when female representation is so low at every level of its workforce.

One important caveat to the above is that women represent 27 percent of Indian MFI boards of directors. Furthermore, it is interesting to note that both Indian and South Asian MFIs have an inverted staff diversity trend in comparison to other regions (where boards have the lowest percentage of female staff participation, followed by upper management, etc.). This is likely related to the new Indian

[12] While for all other SP results (and all financial) data presented in this analysis MIX considers only FY12 data, the cost and time required for a poverty survey is such that an MFI might only wish to repeat this exercise every three years or so. When strictly examining poverty data that MFIs reported to MIX for FY12, only 7 percent have reported poverty data to MIX. Thus, 2010-2012 poverty data were used for this analysis.

[13] World Bank calculations for India (latest available): http://data.worldbank.org/topic/poverty (July 23, 2014). The latest national average figure available for national poverty line was from 2010 while the latest national average figures for US $1.25/day and $2.00/day were from 2012.

[14] Unlike the previous sections, this section does not limit itself only to those MFIs with SP profile data, making use instead of MIX's entire database.

Companies Act of 2013, which mandates that all companies must appoint at least one woman on its board of directors.[15]

Conclusion

Tracking outcomes related to social objectives is a cornerstone of good SPM[16], but capturing and monitoring such data also requires planning and investment. This article has pointed out areas of relative strength in Indian MFIs' current SPM practices as well as those in need of improvement:

- Indian MFIs are generally on par with their peers—and, in some cases, fare even better than their peers—when it comes to reporting outcomes related to specific development goals. However, MFIs around the word could perform better on this particular metric.
- Indian outcome reporting is highest for the goal of poverty reduction, although this reporting is not consistent and gaps in data quality exist.
- While it is true that women are underrepresented within Indian MFIs at many levels, thereby leaving the legitimacy of Indian attempts at female empowerment and gender equality open to question, this fact is partially offset by a greater-than-average representation of women at the board level.

MFIs in India continue to face many SPM challenges. The recently elaborated USSPM should serve as a framework for strengthening these institutions' SPM practices but MFIs cannot accomplish this task alone: they require support from external stakeholders, including but not limited to impact investors[17], to ensure that the social aspirations of Indian MFIs are translated into practice.

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[15]Arundhati Ramanathan, "Indian companies scout for women directors," *Livemint*, April 29, 2014, http://www.livemint.com/Companies/TMQBWS5tNWkUWmLqrG5Q4M/Indian-companies-scout-for-women-directors.html (July 25, 2014). This law does not explain observation of the same trend in other South Asian countries.

[16] For more on this, see the SPTF's Universal Standards for Social Performance Management: http://www.sptf.info/spmstandards/univesal-standards (July 23, 2014).

[17]See Micol Pistelli, Armonia Pierantozzi, and Malika Hamadi, "Beyond Good Intentions: Measuring Impact investment and Social Performance in Microfinance," *MicroBanking Bulletin* (Washington, DC: Microfinance Information Exchange, Inc., 2014), http://www.themix.org/publications/microbanking-bulletin/2014/06/Beyond-Good-Intentions-Measuring-impact-investment-and-social-performance (August 25, 2014). This article explores the relationship between impact investment and MFIs' social performance practices