Costing of MFIs

Nitin Agarwal, Microfinance Commercial Team, Rural Micro-banking & Agribusiness Group, ICICI Bank

Main Findings

The exercise involved development of activity dictionary and allocation of all costs of an MFI on activity basis.

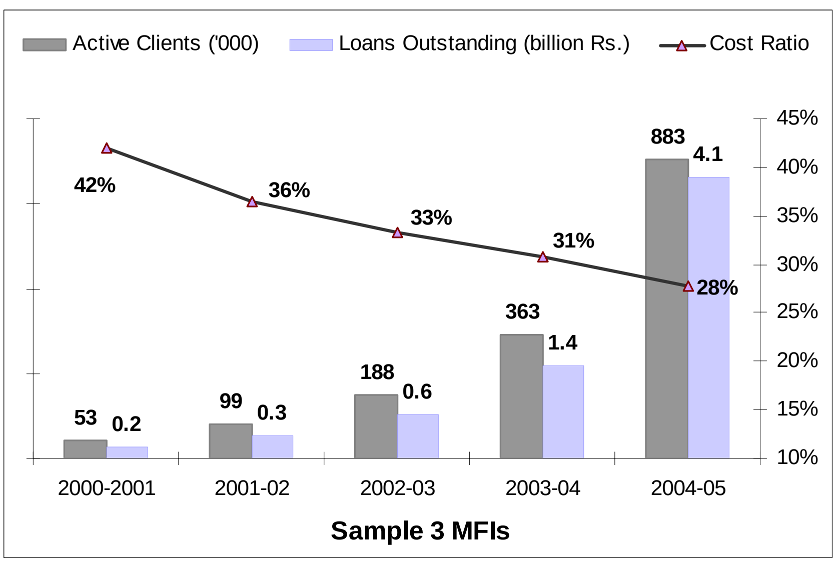
1. Microfinance Institutions (MFI) incur costs not only in sourcing funds and disbursement of these funds to microfinance clients but also in promotion and monitoring of microfinance client groups and development of processes for improving efficiencies of service delivery. Broad distribution of costs for major group of activities is presented in the **Table 1** below.

Table 1: Purpose wise composition of MFI costs

Purpose#	% of total costs	% of average portfolio*
C1. Promotion and monitoring of group processes	4.40	1.22
C2. Taking financial services to the client doorstep	11.05	3.07
C3. Service sustaining and managing activities	27.69	7.70
C4. Establishment expenses	6.69	1.86
C5. Process improvement, compliance and institutional development	6.45	1.79
Operating costs	**57.01**	**15.85**
C6. Financial costs	42.99	11.95
Total	**100.00**	**27.80**

Definitions on page 4
* using average portfolio[1] as denominator depicts the MFI costs on value of loan outstanding with mf clients

2. As an MFI matures with age, the service delivery efficiencies improve. These are associated with improvement in outreach and funds intermediated. The following figure shows that as the number of active borrowers of our sample MFIs improved, the costs per unit decreased with economies of scale.



[1] loans outstanding of the MFI to the clients averaged annually for month end closing figures

This also shows that for the sample MFIs[2] the typical cost of delivery of micro-credit services is in the range of 26-30% of outstanding portfolio. The costs could be higher – upto 40% – for smaller MFIs following similar credit delivery practices.

Introduction

Basic function of MFIs is to deliver microfinance services to low-income clients. The contemporary MFIs focus on delivery of credit as their primary function. This exercise is aimed at finding out the cost structure of an MFI. It will help us identify the activities on which an MFI incurs costs. This exercise has been carried out in three of the largest contemporary MFIs with reasonably good operational experience and programme performance.

Methodology

After referring to the existing body of knowledge on costing of MFIs, a methodology has been evolved for this exercise. The methodology borrows heavily from the Activity Based Costing templates of Consultative Group to Assist the Poor (CGAP). In view of limited time available for this exercise, the methodolody has been adapted for quick assessment. The methodology involved desk work in terms of collection of data, its cleaning and then analysis. The field activities include holding consultations with the personnel of MFIs at various levels starting from the CEO to the operational staff. The methodology involved -

i. Identification of cost drivers
ii. Study of past financial statements of MFIs
  - Adjustments of figures based on cost reporting in MFI books
  - Normalisation of loan portfolio outstanding and cash balance figures
  - Calculation of cost ratios [3]from the historical financial data
iii. Development of activity dictionary in consultation with the operations teams of MFIs
iv. Activity wise breakdown of time spent by all personnel (across hierarchy)
v. Purpose wise allocation of travel cost (identified as cost driver)
vi. Assessment of cost structure of sample branches

Sampling

Selection of MFIs: Three MFIs were selected out of the pool of MFI partners of ICICI Bank. These MFIs were selected based on -

i. Availability of reliable data: The MFIs needed to have the reliable data available for last 3-4 years with clearly laid out accounting policies and where the chart of accounts is maintained and adhered to.

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[2] Share Microfin Limited, Spandana, Asmitha Microfin Limited (all with over 7 years of operations, over Rs.1.5 million portfolio and over 3.5 million active clients)

[3] Operating Expense Ration (OER) = all operating expenses / average portfolio
Fiancial Cost Ratio (FCR) = all financial costs / average portfolio
Overall cost ratio = OER + FCR

ii. Scale of operations: The selected MFIs are some of the largest contemporary MFI programmes operating in India (as on January 30, outreach of above 0.4 million clients and total managed portfolio of over Rs.1.5 billion).

iii. Experience of MFIs: The selected MFIs have substantive experience of working with microfinance clients for over 7 years each. This means that they have already passed the startup stage (1- 2 years) and nascent stage (2-5 years) and are now into mature stage (over 5 years). The sample MFIs also needed to have a well established group mobilisation and lending methodology

iv. Operational performance of MFIs: These MFIs have consistently achieved highest rating grades[4] among the contemporary MFI programmes in Asia assessed on governance, management quality and financial performance.

v. Dependence on grants: These MFIs are not sourcing any grants for the microfinance programmes. This ensures that unlike donor supported programmes, they have a strong incentive to improve operational efficiencies to achieve sustainability.

Sample Profile (as on 30 Jan 2006)			
MFI	**Share Microfin Limited (SML)**	**Spandana (SSIFSL)**	**Asmitha Microfin Limited (AML)**
Outreach			
Active clients (rounded off)	872,000	677,000	400,000
Managed loans outstanding (million Rs.)	4,055	2,542	1,870
Branches	295	228	141
Staff strength	2,498	1,908	1,131
Portfolio Performance			
Repayment rate (%)	99.99%	99.99%	99.99%
Portfolio at risk >60 days (PAR_{60})	0.01%	0.01%	0.01%
Model	~35-50 member 'Centres' comprising of 8-10 'JLGs' of 5 members each	~30 member 'Centres' comprising of 3 'JLGs' of 10 members each	~35-50 member 'Centres' comprising of 8-10 'JLGs' of 5 members each

Sub-sample: Comparable (same age) MFI branches were selected with clearly identifiable Rural and Semi-Urban operations. This was done for assessing differences in cost structures of branches operating in these demographics.

Limitations

These are the limitations of this exercise -

1. The exercise does not look at the revenue side of microfinance operations.
2. Activity Dictionary testing (time taking exercise) has not been done. Instead MFI staff interviews and consultations have been used in arriving at the dictionary.

[4] from microfinance rating agencies v.i.z. M-CRIL and CRISIL

3. Like a typical activity based costing exercise, timesheets have not been administered. (this being a quick assessment, administering timesheets would have required longer time frame with staggered administering say over a period of three months). In lieu of time sheets, experience of the personnel engaged in activities in different functional teams has been ascertained through in depth interviews and discussions.
4. The sample MFIs follow Grameen Bank model with 5-10 member Joint Liability Groups (JLGs). The results reflect cost structures of JLG based MFIs and cannot be generalized to SHG based MFIs. However, the cost structures of SHG based MFIs is generally higher. This is because of higher group mobilization and monitoring costs – (1) Internal circulation of funds also require monitoring (2) Monthly group meetings require more training and development of group processes.
5. The results of this exercise do not reflect the costs incurred by MFI clients in availing microfinance services.

Section 1: Main cost drivers

The expenses reported in the financial records of MFIs are generally categorized as –

1. **Personnel costs** – typically salaries paid to the employees
2. **Travel costs** – fuel costs and cost of maintaining vehicles. This may/may not include the travel costs incurred by the MFI staff in daily travel to field since at times that component is reimbursed with salaries hence, reflected in the personnel costs
3. **Administration costs** – all establishment costs, may include insurance, provident fund for employees, depreciation etc.
4. **Group development costs** – generally this includes only those costs that MFI incurs in organizing events involving groups or taking up specific capacity building training exercises. This does not include the other costs associated with group processes which get reported under personnel costs, travel costs and admin costs.
5. **Financial costs/bank charges** – includes interest costs, processing fee and loan loss provisioning expenses.

Among all these heads, there is a wide variation in reporting[5] by MFIs. Under this exercise, we have segregated all costs according to the chart of accounts and then distributed these costs over the activities that the different cost drivers take up.

For this purpose, an activity dictionary has been developed. The costs associated with these identified activities have been apportioned from the above five reported expenses categories. This gives the cost structure of an MFI with respect to different activities. The complete activity dictionary and results are presented in **Table 3** on the next page. To

[5] Commonly reported costs for which adjustments have been made are: insurance premium paid, bank charges, exchange loss, local taxes, depreciation etc.

help us draw conclusions from the activity dictionary, the identified activities are further divided into these categories –

C1. Promotion and monitoring of group processes

MFIs use the function of joint liability or peer pressure among clients in lieu of security for microfinance loans. To develop this joint liability function, the MFIs undertake formation of groups. All the costs associated with group process have been combined under this category to assess the cost associated with promotion of group processes. This starts with identification of target areas, organizing clients and developing them as joint liability groups. This excludes costs associated with financial transactions but includes all travel expenses undertaken for group activities (including financial transactions). MFIs spend 1.22% of their outstanding portfolio (4.40% of total costs, 7.72% of operating costs) in promotion and monitoring of group process.

C2. Taking financial services to the client doorstep

As the name suggests, we have tried to collate those costs from the activity dictionary that can be attributed to taking the financial services to the client doorstep. This includes most of the costs associated with the branches and the preparations for group meetings and for the transactions to be done in the meetings. MFIs spend 3.07% of their outstanding portfolio (11.05% of total costs, 19.38% of operating costs) in taking financial services to the client doorstep.

C3. Service sustaining and managing activities

In terms of definition, these are the services which on standalone basis do not lead to microfinance business however are essential supporting/sustaining activities without which, the above activities cannot be taken up e.g. most of the activities undertaken at the branches like maintaining MIS etc. However, we have excluded the infrastructure related costs from this category. MFIs spend 7.70% of their outstanding portfolio (27.69% of total costs, 48.58% of operating costs) in service sustaining and managing activities.

C4. Establishment costs

These are the costs associated with infrastructural requirements of an MFI. It constitutes 6.69% of total costs or 1.86% of outstanding portfolio.

C5. Process improvement, compliance and institutional development

These are the activities without which, the business would sustain itself assuming the external factors affecting the MFI remain static. Therefore these are essential for sustainability of the business in terms of environment management, and improving efficiencies by process improvement and adopting best practices. MFIs spend 1.79% of their outstanding portfolio (6.45% of total costs, 11.32% of total costs) in process improvement, compliance and institutional development. These costs range from developing MIS to institutional transformation related costs.

The table below gives both the activity dictionary as well as the costs associated with the identified activities. It also shows the activity related costs in proportion to –

- Average portfolio: it can be used to draw a direct relation with the volume of credit serviced.

- Total cost: it simply helps us identify the cost implication of the activity with respect to the overall cost of MFI
- Operating costs: since overall costs are also a function of financial cost, we have assessed the operating costs separately. This helps in excluding the effect of interest rates since they are over 80% of financial costs. Therefore the proportion of operating cost is a good measure to assess the costs associated with an activity.

The following activity dictionary is the main finding of the study. This can be used to draw conclusions for the costs associated with MFI operations.

Table 3: Operating costs: activity dictionary

Category	Activity dictionary	% of operating costs	% of total costs	% of average portfolio
	1. Group Formation	**3.85%**	**2.19%**	**0.61%**
C2	Travel: only for new group formation	0.95%	0.54%	0.15%
C1	Village survey, area selection	0.18%	0.10%	0.03%
C1	Projection meetings	0.28%	0.16%	0.04%
C1	PGF (Prelim group formation, collection of data)	0.32%	0.18%	0.05%
C1	CGT (Comp Group Training)	0.35%	0.20%	0.06%
C1	GRT (Group Recognition Test)	0.42%	0.24%	0.07%
C1	Member enrolment	0.11%	0.06%	0.02%
C1	Regular Capacity Building	0.92%	0.52%	0.15%
C1	Recording of survey/proceedings	0.32%	0.18%	0.05%
	2. Centre Meetings: Non financial activities	**7.78%**	**4.43%**	**1.23%**
C2	Travel for center meetings	2.96%	1.68%	0.47%
C1	Member assembly/oath etc	1.71%	0.98%	0.27%
C1	Meeting records: attendance etc	1.32%	0.75%	0.21%
C1	Resolution of group problems: social issues	0.78%	0.44%	0.12%
C1	Reference check and house visit	1.01%	0.58%	0.16%
	3. Centre Meetings: Financial transactions	**13.43%**	**7.66%**	**2.13%**
C2	Collections (Group fund/thrift)	0.67%	0.38%	0.11%
C2	Recording thrift collection	1.21%	0.69%	0.19%
C2	Reading out savings/credit details	1.21%	0.69%	0.19%
C2	Collections (loans)	0.67%	0.38%	0.11%
C2	Recording Loan repayment collection	1.21%	0.69%	0.19%
C2	Disbursement of new loans: cash part	1.61%	0.92%	0.26%
C2	Recording for new loans	2.02%	1.15%	0.32%
C2	Fresh credit demand collation: discussion/ addition	1.07%	0.61%	0.17%
C2	Loan applications: writing	1.48%	0.84%	0.23%
C2	Group resolution	0.81%	0.46%	0.13%

Category	Activity dictionary	% of operating costs	% of total costs	% of average portfolio
C2	Cash reconciliation	1.48%	0.84%	0.23%
	4. At Branch	**32.71%**	**18.64%**	**5.18%**
C3	Admin activities	3.31%	1.89%	0.52%
C3	Weekly HO reports/doc preservation/reports	1.27%	0.73%	0.20%
C3	Monthly reports	0.51%	0.29%	0.08%
C3	Preparation of demand sheet: due statement	2.04%	1.16%	0.32%
C3	Pre-disbursement document preparation (vouchers, sec dep., loan card writing)	2.80%	1.60%	0.44%
C3	Loan application completion + assessment	2.04%	1.16%	0.32%
C3	Cash handling: counting, bundling, reconciliation	1.02%	0.58%	0.16%
C3	Recording daily collections/disbursements	1.02%	0.58%	0.16%
C3	Generating reports	0.76%	0.44%	0.12%
C3	Operating Bank account	0.51%	0.29%	0.08%
C2	Travel to and from Bank, HO, others	1.27%	0.73%	0.20%
C2	Applications entry + Cash demand estimation	0.76%	0.44%	0.12%
C3	Portfolio Quality assessment/action planning	1.27%	0.73%	0.20%
C3	Overdue tracking	1.27%	0.73%	0.20%
C3	Branch performance tracking: outreach/targets etc	0.76%	0.44%	0.12%
C3	Writing vouchers/Cashbook/Journal Ledgers	3.31%	1.89%	0.52%
C3	Utilization Check forms for recent loans	1.27%	0.73%	0.20%
C3	System Backups	0.25%	0.15%	0.04%
C4	Establishment	7.25%	4.13%	1.15%
	5. Client monitoring	**4.95%**	**2.82%**	**0.78%**
C3	Pre-disbursement check	0.74%	0.42%	0.12%
C3	Loan utilization check	0.84%	0.48%	0.13%
C3	Regular monitoring visits	1.14%	0.65%	0.18%
C3	Specific monitoring visit e.g. overdue recovery	0.89%	0.51%	0.14%
C5	Public environment management e.g. spl meetings/cultural events etc	1.34%	0.76%	0.21%
	6. Sustaining Activities	**37.28%**	**21.25%**	**5.91%**
C3	General Administration	3.29%	1.87%	0.52%
C4	Establishment Expenses/infrastructure	4.48%	2.55%	0.71%
C3	Internal Communication, printing and stationary	7.49%	4.27%	1.19%
C3	Travel	8.43%	4.81%	1.34%

Category	Activity dictionary	% of operating costs	% of total costs	% of average portfolio
	Human Resource development			
C3	`- Staff Recruitment and Trainings	0.29%	0.16%	0.05%
C3	`- Staff Maintenance - incentives/PF etc	0.08%	0.04%	0.01%
C3	`- Other HR - recruitment/retrenchment	0.05%	0.03%	0.01%
C3	Maintaining operational records/Database	0.27%	0.16%	0.04%
C3	Monitoring and Supervision			
C3	` - Portfolio tracking	1.07%	0.61%	0.17%
C3	` - Operational target tracking	0.05%	0.03%	0.01%
C4	Controls/Internal Audit	0.31%	0.18%	0.05%
C4	Process improvement and systems development	5.00%	2.85%	0.79%
C3	Operational planning	0.08%	0.04%	0.01%
	Perform accounting and internal financial reporting	0.00%	0.00%	0.00%
C3	`- Maintaining vouchers, cash book, JL	0.74%	0.42%	0.12%
C3	`- Other accounting and final accounts	0.21%	0.12%	0.03%
C3	Banking	0.08%	0.04%	0.01%
C3	Fund raising efforts / relations / queries	0.70%	0.40%	0.11%
C4	Compliance and Institutional development	4.63%	2.64%	0.73%
C4	Public relations exercises	0.04%	0.02%	0.01%
	TOTAL - Operating Costs	100.00%	57.00%	15.85%

The table gives us useful information in terms of components of costs. We can derive from this table the different costs involved in any group of activities carried out in an MFI. E.g, following two illustrations show the costs associated with MIS and Cash handling in an MFI.

Illustration 1: MIS Costs

Cost associated with the MIS/recordkeeping has been extracted from the above 4 categories (C1 to C5) using the activity dictionary. The components include –

- Portfolio information system: covering records at different levels – Clients, JLGs, Center, Field officer, Branch, Area Office, Head Office to Internal audit. Including records for monitoring and tracking of overdues, business planning and portfolio performance assessment.
- Financial information system: covering book-keeping at Branches, Area offices, Head Office, summarization and final accounting, financial performance assessment.
- Personnel performance information system: covering costs related to incentive payouts to staff based on the respective portfolio performance which is also used as a internal control mechanism (prevention, detection and mitigation of frauds).

The data shows that MFIs incur a substantial part of their cost of operations on managing information. In mature MFIs whish also have best practices, this constitutes 25.56% of total costs (4.05% of average portfolio).

Illustration 2: Cash handling costs

MFIs in a way are cash handling machines. At the field level, the field officers collect cash (loan repayments and thrift/equity contribution) and disburse cash (loan disbursement, savings repayment). At the branch level and often at also the area level, similar cash handling exercise takes place. There is a keen interest in this as the scale of microfinance operations increase. This is particularly significant since most of the loan repayment and thrift collections are in small denomination currency. We tried to segregate this cost from our activity dictionary. The cash handling costs for an MFI are 2.19% of total costs or 0.61% of the average portfolio. Significantly, this excludes costs associated with – rounding off, cash loss in transit (generally insured), soiled currency notes and associated bank charges.

Financial costs:

These are the costs most easily identifiable. For the three sample MFIs, the weighted average financial costs are given in the **table 4.** For calculating the financial costs, we have included both the direct interest costs as well as financial costs associated with managing microfinance portfolio for Banks.

Table 4: Financial cost of sample MFIs

Financial Cost	% of financial cost	% of average portfolio
Net interest costs	81.35	9.72
Net non-interest costs of fund sourcing	10.13	1.21
Cash holding cost/cost of idle funds	3.94	0.47
Loan loss provisioning and write-offs	0.47	0.06
Net cost on servicing thrift /equity	0.42	0.05
Taxes	2.45	0.29
Bank charges, exchange loss	1.24	0.15
Total	**100.00**	**11.95**

As the above figures show, about 81.35% of financial costs are directly the interest payments on the loans/partnership funds sourced from financial institutions. The non-interest cost of funds sourcing includes the cost of funds used as security/credit enhancement with financial institutions net of the interest income on such deposits.

The MFIs do not collect savings directly but they have thrift component in their programme. Spandana collects advance payments for their loans on which it was paying interest. SML and AML use the mutual benefit trust as separate legal entities to mobilize client funds. However in terms of costs, this activity uses MFI infrastructure and staff.

Relevant costs have been calculated to arrive at figure for cost of thrift (mainly interest outflow) and equity (mainly staff/establishment costs).

The cost of carrying cash has been excluded from the cost of funds. To that extent, the interest cost and non-interest cost associated with borrowings/funds managed under partnership have been adjusted to arrive at cost of holding cash. The cost of carrying cash is about 0.47% of average portfolio. Besides this, as stated earlier, operational cost associated with cash handling for an MFI is 0.61% of average portfolio.

Cost of taxes stated here includes the costs associated with stamping, franking and local taxes. This does not include the income tax incidence since it would also be a function of revenues which we have excluded in this study.

Section 2: Overall costs

The above section helps us understand the activities on which an MFI incurs costs. However, these costs need to be put in perspective. The basic business of an MFI is to deliver microfinance services. The sample MFIs focus on micro-credit while the other microfinance services constitute negligible additional cost of delivery. For MFIs offering micro-savings and micro-insurance services, adjustments of relevant costs have been done on activity basis taking into account the method of reporting of expenses.

The three sample MFIs show almost similar overall cost of operations – illustrated in the graphs on the next page. If we look at the data for the last five years for our sample MFIs, interesting trends emerge. The MFIs are able to service larger number of clients who helps in corresponding increase in outstanding portfolio figures. As the operations grow, the economies of scale are clearly visible with overall costs on average portfolio coming down. The overall cost of MFIs include both the operational and financial costs. Table 3 hows the range for these costs for the three sample MFIs that are considered mature.

Table 3: Overall MFI costs

Costs	Range (%)	weighted average (%)
Operating	15 – 18	15.85
Financial	11 – 13	11.95
Overall	**26 – 30**	**27.80**

The graphs on the next page also show that initially, the cost of operations ranged between 31-42% which improved with the growth in scale. Another remarkable thing to note here is that the growth in portfolio size is similar to the growth in number of active borrowers. This reflects that the average loan size has remained same. As the clients get into higher loan cycles, their average loan sizes increase. However, these MFIs have been growing at a fast pace and the number of new loans is large enough to average out the increase in size of higher cycle loans.

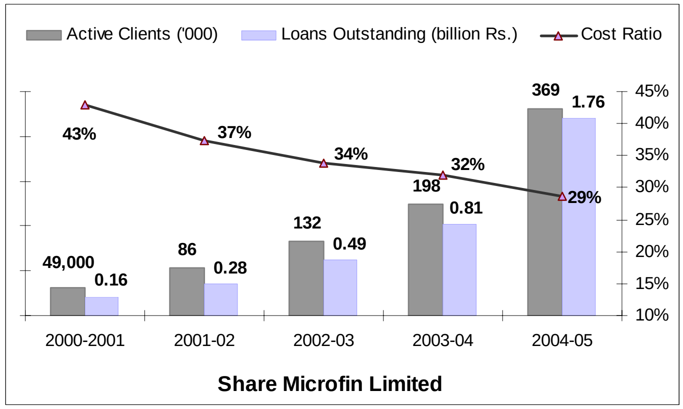
As the graphs illustrate, the trend is remarkably uniform across three MFIs. Among the sample MFIs, there is a slight variation in trend observed with Spandana in year 2005. The reasons for it also give us interesting revelations. Although all the three MFIs have shown substantial growth, there is a slight difference in operational strategy of the three MFIs. SML and AML follow a strategy of **advancing costs** where they have prepared themselves for growth while Spandana follows a strategy of **matching costs** where it builds capacities with the growth.

Microfinance is characterized with large number of transactions though in small volumes leading to huge number of data points. SML and AML have largely computerized operations and a higher concentration of professionally qualified senior management staff. Comparatively, Spandana has relied on manual recording of data in the past. As operations of Spandana have grown, it has also embarked upon computerization in the last two years to match the growing challenges of managing data efficiently. It has also started increasing its pool of professionally qualified staff. This means that the costs in case of Spandana have increased marginally with additional allocation of resources to build capacities. Some part of increase in costs in case of Spandana is also attributed to direct costs associated with change in organizational form (from Society to NBFC) and movement of its Head office from Guntur to Hyderabad.

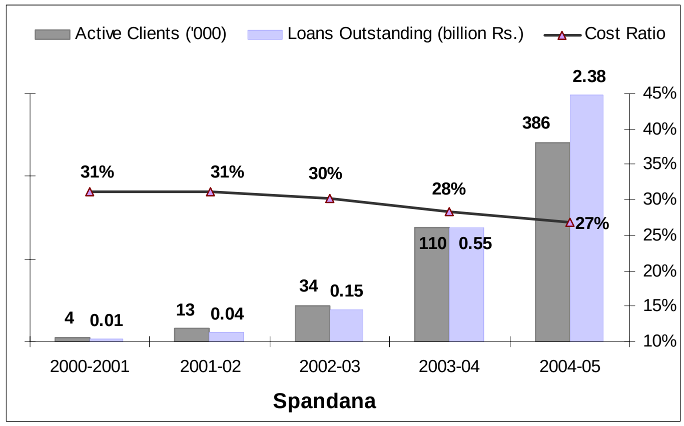
Qualitatively, both the models are equally good. This has been proved by outstanding portfolio quality of all the three MFIs where they have over 99% repayment rate and negligible PAR_{60}. The operational strategy notwithstanding, the overall cost averages are still in the same range (26-30%).

Section 3: Branch location wise costs

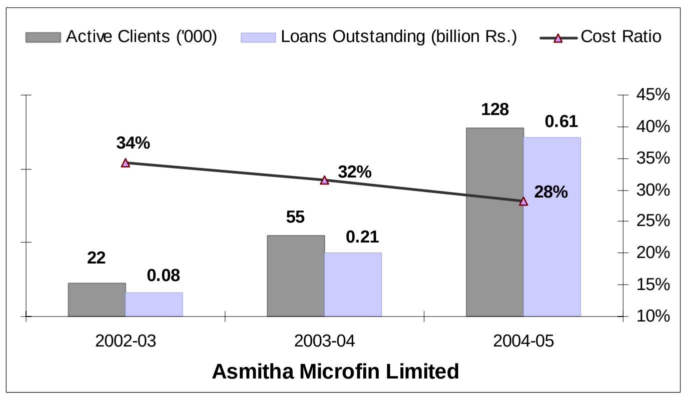
We have taken sample of typical branches from the two MFIs. For dividing field officer personnel costs activity wise, it is assumed that he field officer's activity profile



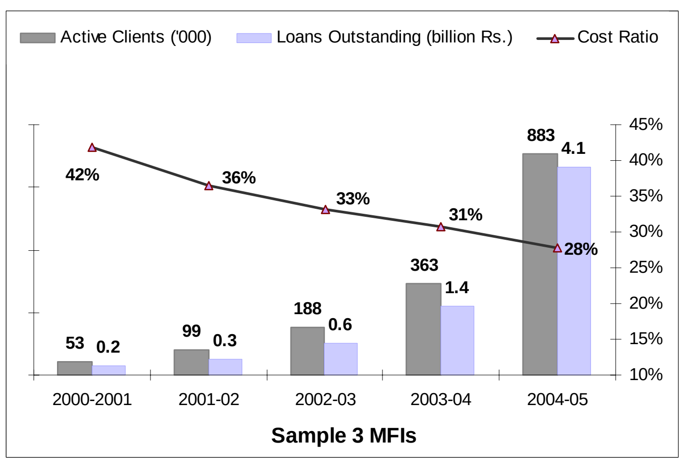
Share Microfin Limited



Spandana



Asmitha Microfin Limited



Sample 3 MFIs

depends upon the age of the branch. Eg. In a new branch, more time is spent on developing new groups. Therefore an average age is taken for the branch and field officers time has been allocated across periods/stages. The average age of branches is –

- Share Microfin Limited: 36 months
- Spandana: 12 months
- Asmita Microfin Limited: 14 months

The branches have been classified as Rural or semi-urban depending upon the areas covered by these branches. In the financial statements of the branches, financial costs are put depending upon an estimated cost of funds for additional funds sourced from area offices/head office. For assessment of branch level cost of operations, we have excluded the finance costs. Since we are using average outstanding portfolio as base for assessment, the effective financial costs are the same.

In terms of per unit cost of credit delivered, the cost associated with serving rural and semi-urban clients is largely similar. However, the component of costs varies. **Table 3** shows the relative difference between rural and semi-urban branch. The variation is calculated with average branch portfolio as the base.

Table 6: Variation in cost structures of Rural and Semi urban branches

Differentiating feature	Rural branch	Semi-urban branch
Average loan size	lower	higher
Number of borrowers	lower	higher
Cost Drivers	**Rural branch**	**Semi-urban branch**
Personnel costs	higher	lower
Travel costs	higher	lower
Establishment costs	lower	higher
Financial costs	similar	similar

We have not stated the figures in the above table. Average loan size and the number of borrowers for different branches are benchmarked by the MFIs depending upon their credit delivery methodology. For operating costs, the figures differ and a range or weighted average would not reflect any generalisable picture since the sample is also small (2 branches each of SML and AML and 3 branches of Spandana). However, taking average portfolio as base, the above table shows that for rural and urban branches of all 3 sample MFIs, the relative costs are same.

In rural branches, the time spent on travel and group meeting is relatively higher. In semi-urban branches, due to higher density of population, the staff does not need to travel much and can therefore service more number of clients. However, iIn semi-urban branches, the establishment costs are higher since the branch rentals are higher compared to rural areas.

Conclusion

The study was aimed at finding costs incurred by microfinance institutions in delivery of microcredit. The main exercise involved development of activity dictionary and allocation of all costs on activity basis. The figures arrived at can be used to draw further conclusions in terms of cost structure of an MFI.

	Activity dictionary	% of operating costs	% of total costs	% of average portfolio
1	Group Formation	3.85%	2.19%	0.61%
2	Centre Meetings: Non financial activities	7.78%	4.43%	1.23%
3	Centre Meetings: Financial transactions	13.43%	7.66%	2.13%
4	At Branch	32.71%	18.64%	5.18%
5	Client monitoring	4.95%	2.82%	0.78%
6	Sustaining Activities	37.28%	21.25%	5.91%
	TOTAL - Operating Costs	**100.00%**	**57.00%**	**15.85%**

The exercise also looked at the overall costs of microfinance operations of the 3 sample MFIs. This helped us find trends in terms of economies of scale and the range of costs on average portfolio.

In terms of branch level costs, we found that the overall cost on average portfolio serviced by Rural and Semi-urban branches is similar. However, the rural branches incur more costs in group processes (associated personnel and travel costs) while semi-urban branches incur more cost of infrastructure.