



C.O.N.T.E.N.T



Sa-Dhan drives agenda of responsible finance in its 12th Annual General Body meeting **1**



Building the Future Work Force: Sa-Dhan's Orientation Program on Microfinance **3**



Sujeewan (Financial Inclusion for Livelihood Security) **5**

Don't Cap Microfinance Lending Rates **8**

Subir Roy: Big is beautiful in microfinance **9**

SHGs in Orissa deposited Rs 290 Crore in Banks **10**

Banks told to lend more to SHGs **11**

Micro insurance is now macro business **12**

Important Upcoming Events **13**



Sa-Dhan
The Association of
Community Development
Finance Institutions

Sa-Dhan: The Association of Community Development Finance Institutions (CDFIs) represents countrywide a total of 237 members across 19 states with loan outstanding of Rs. 18,344 crore (4 billion USD) and client outreach of 2.67 crore (26.7 million).

Sa-Dhan drives agenda of responsible finance in its 12th Annual General Body meeting

Business Standard
September 01, 2010

Sa-Dhan, the national association of Community Development Finance institutions held its 12th Annual General Body meeting on August 31st 2010 at Hotel 'The Capital' in Bangalore.

150 present member organisations providing Microfinance and development services considered and adopted auditor's reports as well as director's reports. This was followed by an overview of the performance of 262 members as well as non members reporting to Sa-Dhan. Key highlights were a client outreach of 26.7 lakhs and a total (on balance sheet) loan portfolio of 18,344 crores. The northern and western regions of India will be the next growth drivers, while growth in the South is slowing down. An in depth analysis was done on 140 data contributors. Out of them, 52, 9 % per cent of the data contributors apply the group model replicating the Grameen bank of Bangladesh. This group lending model is supposed to overcome the problems of commercial banks in providing credit to the poor. The detailed report 'Sa-Dhan Quick Review 2010' will be available as hardcopy in beginning of September 2010.

Special prominence was given to amendments of the Memorandum of Association which will now include rules that open avenues for strict enforcement of the Code of Conduct. The Code of Conduct lays down operational guidelines for delivering Microfinance to poor sections of rural and urban India, it is seen by many experts as a milestone in the development of Microfinance in India. The data which will be collected on

Code of Conduct is part of a larger set of Social Performance data which will -in addition to financial data- enable the public to understand the complex environment in which Microfinance is operating.

Sa-Dhan with its 237 members covers a broad range of legal forms and approaches to development finance. It is a premier partner to talk to for RBI, government as well as other institutions when discussing about Microfinance. Thus, the adoption of the annual programme was of special interest for many stakeholders. The AGM ended with the election of Governing board members.

Financial data supplement

- 262 members and non members of Sa-Dhan reported for the year ending March 2010
- Their total client outreach is 26.7 lakhs
- Their total (on balance sheet) loan portfolio is 18,344 crores
- Emerging trends:
 - ❖ Steady decline in dominance of Southern region
 - ❖ Eastern region has seen a rapid growth in recent years but still a long way to go to catch-up South
 - ❖ Northern and Western regions are likely to be the next growth drivers
 - ❖ Dismal growth in North-Eastern region, especially outside Assam
 - ❖ Assam alone accounts for nearly two-third of outreach and portfolio of North-Eastern region



Sa-Dhan

The Association of
Community Development
Finance Institutions

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- A sample of 140 data contributors has been analysed for distribution of MFIs, Growth, portfolio quality, yield, operational expense, balance sheet distribution and leverage and profitability

The key findings are given below

Distribution of the analysed 140 MFIs

- ❖ Many large south based MFIs are now expanding to other regions, particularly East, that boosted the growth there
- ❖ Small MFIs constitute more than 50% of the sample, while large constitutes less than 16%
- ❖ Close to half of the MFIs in the sample have been added in the last five years
- ❖ Good mix of mature and young MFIs
- ❖ The dominance of 'not-for-profit' MFIs in terms of number is declining gradually in favour of NBFCs
- ❖ Nearly half of the nascent and young MFIs have directly registered themselves under 'for-profit' legal form (NBFC)
- ❖ The classical 'Grameen Bank Model' emerged as the most preferred model among MFIs
- ❖ Individual lending model is also gaining ground, mainly as an alternative delivery model to old clients
- ❖ Ten Largest MFIs constitute about 80% and 76% of the sector's portfolio and client outreach respectively
- ❖ Barring SKDRDP, nine out of 10 largest MFIs are NBFC
- ❖ NBFC-MFIs alone covers about 89% of the total loan portfolio of all MFIs in India

Growth of MFIs (lending portfolio growth)

- ❖ No significant correlation was found between age of MFI and its scale of operations
- ❖ New MFIs have also grown rapidly and attained medium to large size in a few years
- ❖ The large MFIs explore new frontier of scale every year
- ❖ For last five years they have consistently defied the rule that growth rate retards, once a critical size is attained
- ❖ **They have highest median growth rate among all size categories of MFI**, followed by small MFIs with portfolio base between Rs1 – 10 Crores.
- ❖ One of the reasons behind high median growth rate of small MFIs are young NBFCs growing at rapid pace
- ❖ As expected, portfolio growth rate is highest among 'for-profit' MFIs (NBFCs)
- ❖ Large equity infusion in recent years has helped them to leverage their capital to finance their portfolio growth
- ❖ Globally, India tops the list in terms of amount of institutional equity investment made in MFIs * Despite being small in number, the MFIs following 'Individual Banking' have registered highest growth rate
- ❖ Among the 10 largest MFIs (with growth rate >100%), six of them have adopted the Grameen

Bank model

Portfolio quality PAR 60 (portfolio at risk: outstanding balance of all loans in arrears for more than 60 days divided by total outstanding portfolio)

- ❖ Median PAR60 of entire sample being 0.4%
- ❖ Reasonably good loan asset quality across size, legal form and delivery model
- ❖ No clear pattern evolved in portfolio quality in terms of size of MFIs
- ❖ Among the sample, portfolio quality is best among the Grameen Replicators and poorest among the MFIs following Individual Banking
- ❖ MFIs with high loan sizes have poorest portfolio quality

Portfolio yield

- ❖ Median portfolio yield of the sample is 26.6%
- ❖ In general, the portfolio yield of Indian MFIs are among the lowest in the world
- ❖ MFIs at the two end of spectrum - 10 largest MFIs and 10 smallest MFIs have the highest median yield
- ❖ No direct correlation can be drawn between size of an MFI and its portfolio yield
- ❖ Only 20% of the largest MFIs have yields less than 20%, 70% have yield over 30%, none have yield over 40%
- ❖ Median yield is highest for the for-profit MFIs (28.6%) and least for the mutual benefit MFIs (19%)

Operational expense ratio (OER: total administrative expenses excluding financial costs divided by average outstanding loan portfolio)

- ❖ The median OER of the sample is 10.3%
- ❖ Indian MFIs are among the most efficient in the world
- ❖ Nearly 60% of them have an OER below 15% and about 32% of them have an OER below 10%
- ❖ About 80% of the MFIs with an OER of less than 5%, follow the SHG model
- ❖ However, about 55% of the MFIs having OER above 20%, follow the Grameen Model
- ❖ None of the large MFIs have an OER greater than 20%

Balance sheet distribution and leverage

- ❖ A typical Indian MFI put about 82% of their total assets in loan portfolio, while liquid assets account for 12%
- ❖ The utilisation of assets have become better as the MFIs moves from small to large
- ❖ The not-for-profit MFIs have performed better than the for-profit MFIs, in terms of asset utilisation
- ❖ The not-for-profit MFIs have also performed better than the for-profit MFIs, in terms of leveraging their capital
- ❖ Reasons could be attributed to minimum capital adequacy norms (statutory) for NBFCs and also

many of the NBFC-MFIs are young in age, hence limited or no credit repayment history

Profitability

- ❖ About 80% of the MFIs in the sample are operationally self-sufficient
- ❖ 50% of the MFIs working exclusively in the North-Eastern region are not operationally self-sufficient
- ❖ The median Return on Assets and Equity for the sample is 1.6% and 11.5% respectively
- ❖ ROA and ROE increases gradually with size of MFI, as Yield increases and OER decreases in same order
- ❖ In terms of legal form, the median ROA & ROE of 'for-profit' MFIs is lowest among all legal form. It is because most NBFCs are new and yet to reach high profit volume

Overall summary

- The Indian microfinance sector is one of the

fastest growing and most keenly watched microfinance market in the world

- It is commendable not because it managed to sustain the growth level for past few years but it manages to grow despite all odds
- The growth is primarily led by NBFCs with infusion of private equity. India tops the global list of recipients of commercial capital for microfinance
- The growth has also seen moderation in the regional skewedness of concentration of microfinance services
- While growing at rapid pace, the Indian MF sector has defied many conventional rules of business, like, inverse relationship between size and growth rate, correlation between age and size, etc.
- The famous Pareto's 80-20 principle also holds good for Indian MF sector – Nearly 80%

of the portfolio is held by the 10 largest MFIs

- Indian MFIs are not only most efficient MFIs but their portfolio yield is also among the lowest in the world
- The portfolio quality level has also come back on track after the debacle in some pockets last year
- They have also done well in terms of asset utilization
- Efficient allocation of resources has also contributed in improving the profitability outlook of the sector
- About 80% of the existing MFIs have achieved operational self-sufficiency
- Their ROA is also impressive, which has attracted both critics and investors
- To grow while being transparent and display responsible behaviour is the need of the hour

Building the Future Work Force: Sa-Dhan's Orientation Program on Microfinance

Background

As quality of services in the microfinance industry depends on person-to-person contact, the sector is human resource intensive. Therefore, with rapid growth of the sector, availability of skilled & quality human resources will play a critical role for sustaining the growth of this industry.

In today's rapidly changing environment, MFIs' competitive positions are constantly being challenged. Within that, MFIs are facing human resources issues like staff retention, turnover, recruiting and training as their biggest challenge.

The existing supply of human resource to the microfinance sector has largely grown out of NGOs. Therefore, the existing human resources in this sector have more of NGO orientation rather than microfinance orientation. Professionalism in microfinance sector is limited. This is because there are not many institutions offering programs in the area of microfinance.

In a desk research conducted by Sa-Dhan, it was found that less than only 25 institutions in India have exclusive courses in microfinance. This is grossly inadequate in the light of the demand for the sector. Similarly, educational institutions find it increasingly difficult to assure job opportunities to their students. Sa-Dhan, has been approached by many management institutions to recruit

personnel for the sector from their graduating students. To develop the future human resource for the microfinance sector, Sa-Dhan has been encouraging more and more institutions to launch courses on microfinance as part of their curriculum.

Sa-Dhan's Initiatives on Building Human Resource for the Microfinance Sector

Diploma in Microfinance

In collaboration with Indian Institute of Banking & Finance (IIBF), Mumbai, Sa-Dhan has brought out a diploma course on microfinance. The same was launched by Mr. Pawan Kumar Bansal, Hon'ble Minister of State for Finance during annual conference held on 2nd April 2008 in New Delhi. This is a correspondence course to benefit existing practitioners and the student community.

The new course has drawn attention of the academic institutions. As sequel to this, several educational institutes have shown interest in



launching similar course/including microfinance as a subject in their existing curriculum. Sa-Dhan has sufficient resources to facilitate technical inputs to offer to the academics in need. The member organizations have enough ongoing projects/practices wherein the students of the microfinance course can undergo practical exposure/internship, wherever required to inculcate professionalism apart from theoretical inputs.

Workshops: "Academic Confluence"



Sa-Dhan has planned a series of workshops with educational institutions to discuss the HR issues in microfinance sector and explore solutions from the experience of educational institutions and Sa-Dhan members. Two such workshops in Orissa and Andhra Pradesh have already been conducted and others are in the pipeline.

Standard Manual: “Unveiling Microfinance”

Sa-Dhan has also developed an Instructor manual for introducing Microfinance course. The manual is to guide teachers, trainers, speakers and all those who are related to microfinance and have to explain the topic to others. The manual could be of use to anybody who has to explain the topic of microfinance either in a quick speech or in an elaborate manner. The manual would be of use to staffs of MFIs, banks, consultants, researchers, teachers, investors or others who have to speak on the topic of microfinance.

Students Training Program: “Microfinance Orientation Program”

The Orientation Programs is a new initiative of Sa-Dhan to orient new generation workforce specifically MBA students to prepare them to work for the microfinance sector. First such request came from Govind Ballabh Pant Social Science Institute, Allahabad University to run a week long program for their MBA-Rural Development students during September 2010. Subsequently, Sa-Dhan conducted “Orientation Programme on Microfinance” for MBA students of Rural Development of MBA-RD Students of GB Pant Social Sciences Institute, Allahabad, from 13th to 18th September 2010 at Allahabad.

Sa-Dhan planned to conduct this program by engaging its members, Sector experts, Capacity building institutions, Trainers and designed a six day course module for the same.



Program Objectives

The basic objective of the program was to orient the students about the Microfinance sector, its history, fundamentals, products, services, financial analysis, management aspects, current issues and other important topics. This was to enable the students to understand the sector in a much better way and to make up their mind to opt Microfinance as their career opportunity.

Participants

The participants of the Orientation Program were forty students of the third semester of MBA-Rural Development of G B Pant Social Science Institute, Allahabad University.



Workshop Host

The workshop was hosted by Govind Ballabh Pant Social Science Institute, GBPSSI. The G.B. Pant Social Science Institute is a premier research institute in India established in 1980 under joint support of the Indian Council of Social Science Research (ICSSR) of the Government of India and the State Government of Uttar Pradesh (U.P.). The GBPSSI is a constituent Institute of the University of Allahabad (Central University).

Orientation Program methodology

For the Orientation Program in microfinance, a mix of methodologies was adopted in the delivery of the course to ensure maximum assimilation of the course content in the six days. The course was delivered in an interactive manner using presentations, discussions, focused group discussions, open-house interaction, case studies and field visit. The students were taken on a half day exposure visit to one of the MFIs.

Trainers

Along with the course coordinator, Mr. Rahul Bist, Partner, M2i Consulting, few of the sessions were taken by Sa-Dhan Secretariat and industry practitioners and bankers. Following were other speakers:

Mr. Sanjay Gowan, DGM SIDBI, Mr. Mukul Jaiswal, Managing Director, Cashpor, Mr. Abhay Singh, AVP Training, Sonata, Mr. Mathew Titus, Executive Director, Sa-Dhan, Dr. K. Natrajan, Program Manager Sa-Dhan and Mr. Punit Kr Singh, Program Executive, Sa-Dhan

The Program covered the following topics: Introduction- Fundamentals of Microfinance, Streams and models, Products and services,

Accounting for MFIs and CGAP format, Portfolio concept, Cost volume profit analysis, Interest rate concepts, Financial Analysis, Risk and delinquency management, MFI performance: Industry benchmarks, Legal Forms, Resource mobilization: Capital issues (Debt & Equity), Social performance management and Current Issues in Microfinance.

On the fifth day, participating students were taken for a field visit to branches of Sonata Microfinance. The students were split into five batches of eight students each and were accompanied by trainers and professors. Each group visited 4-5 centre meetings and interacted with MFI clients. Further, interaction was facilitated with branch managers to understand the various branch level processes and functions.

The visit was very helpful for the students in experiencing the application of concepts taught in the class room. Based on the field visit students were asked to make presentations on different processes.



On the last day of the training the students were explained the nuances of Social Performance Management and its importance in the current scenario. The students also got an opportunity to interact with Mr. Mathew Titus, who discussed larger issues concerning microfinance, microfinance bill and how economic theories operate at grass root level. The students got an opportunity to clarify their various doubts with Mr. Titus.

Post training Evaluation

In the post-lunch session on the last day of the orientation program, the students were administered a test for evaluating their understanding on the six days program. The pass marks for the test was kept at 50%. The maximum marks for the test was 48.

The students fared very well in the test reflecting that the training had indeed been

very useful for them and they could understand most of the concepts discussed during the



training. The test was by passed by 100% students with 90% students getting over 60% marks and 52.5% students getting above 70% marks.

Feedback from the students and wrap up

Feedback from the students were also sought. The students showed keen interest in microfinance and accepted that the course was very useful in developing their understanding on microfinance. This was the first time that they had been exposed to microfinance and found it very relevant from their career

perspective. Many students showed keen interest in having microfinance as their choice of career. Students expressed that through training they could clarify many of their doubts and myths about the sector and its mission.

The training was concluded with discussion on current issues in Microfinance and SIDBI approaches and at the end certificate distribution to all participants, the certificates were distributed by Mr. Sanjay Gowan, DGM, SIDBI.

Sujeewan (Financial Inclusion for Livelihood Security)

Contributed by Initiatives for Development Foundation (IDF), Bengaluru

Background:

Financial Inclusion is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable growth in the country. Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups such as small and marginal farmers, lease farmers, laborers and artisans. Financial Inclusion aims to extend hassle free savings, loan facilities, other banking services, insurance and pension at an affordable cost, to the underprivileged and unserved population.

To bring in Financial Inclusion, as per the policy initiatives of RBI, Banks can engage NGOs to provide services as Business Facilitator (BF) or Business Correspondent (BC). The BC/BF working with the financially excluded community shall bring them under banking fold through enabling processes.

IDF took steps to partner as BC/BF of SBI subsequent to the workshop titled 'VYAPTI' held during 2008. This workshop focused on roles and responsibilities of NGOs as BC/BF in Financial inclusion. The workshop highlighted developing a scalable and replicable financial inclusion process bringing the financially excluded into the banking fold.

Sujeewan project:

The field studies of IDF indicated the need for providing a basket of services to the financially excluded for developing their capacities in

- Sustainable livelihoods (farm and non farm)
- Financial literacy and prudent financial practices

Facts and Plans in Sujeewan

- Project Area: 15 villages of Kunigal Taluk
- Pilot period: FY 09-11 (24 months)
- Fin. Excluded population: 41% households (#0.47 lakh)
- Covers Farming households mostly excluded, practicing unsustainable technology



Vyapti - Workshop on role of NGOs as BC-BF in Financial Inclusion

These aspects were considered to be important, as it functions as a bulwark for risk mitigation while linking the financially excluded community with banks. To provide these services, IDF formulated a time bound project with part funding from Hivos. The project is called 'Sujeevan' (Financial Inclusion for Livelihood Security). The pilot is being implemented in Kunigal taluk of Tumkur district. This taluk has been considered as the most backward taluk by the Government of Karnataka.

Risk mitigation in farming:

Most of the financially excluded are directly or indirectly dependent on agriculture. Small, marginal and lessee farmers are highly vulnerable to production and market risks. To promote sustainable agriculture for increased financial returns, Agriculture, Man & Ecology Foundation (AMEF) - an international NGO has developed the capacities of IDF team to provide micro extension

services on sustainable agriculture. The technology is disseminated through Farmer Field School (FFS). Each FFS has about 25 – 30 farmers who meet at weekly interval in one of the members' farm to learn the technology on experiential mode.

Organising the financially excluded:

Focusing on the financially excluded sections, the village community is organized on SHG mode with regular savings, labour sharing and meetings. Those who take up agriculture are organized into Farm SHGs each constituting about 10 to 15 members. The women are also organized into SHGs with 10 to 15 members. Two representatives each of the groups in a village constitute the Sujeevana Koota. Two representatives from each of the Koota constitute the general body of IDF Sujeevan Federation, which elects the Board of Trustees of the Federation. The Federation, is a mutual benefit trust, working for the socio economic development of the member groups. It is mentored to take the role of the Business Development facilitator to its members.

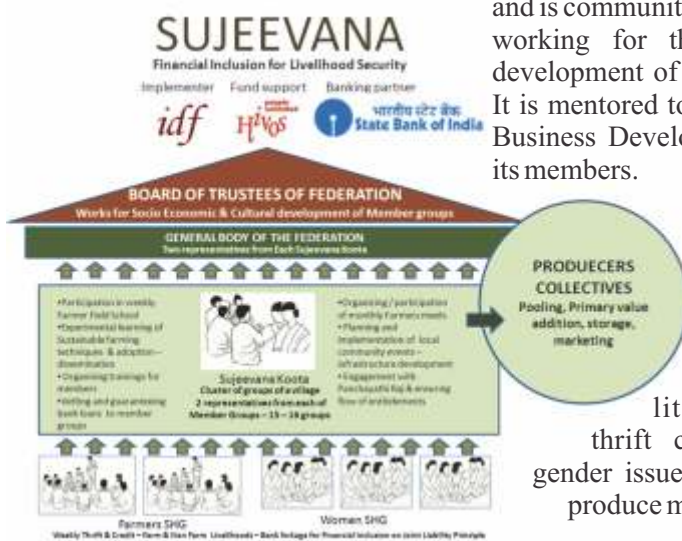
The forum of FFS and the group meetings is utilized for education and action on financial literacy, developing thrift culture, health and gender issues, insurance, pooled produce marketing etc.

village FFS/SHGs to the meet. The meet would last about 5 to 6 hours concluding with lunch. Innovative farmers, specialists on themes of immediate use to farmers are also invited to have interactions. This meeting holds lot of potential for co-opting the larger village community for collective actions and is serving to evolve and institutionalize producers' collectives

Future farmers clubs:

Involving the teaching staff of High schools in the project village, Future Farmers Clubs shall be organized in the school by the Koota. It has members from among the students coming from farming families. Through these clubs various activities shall be carried out by the students with the objective of developing the sense of pride and identity with farming as a profession and become financially literate at the formative phase. The club shall also invite innovative and successful farmers in the village to interact with its members so that they get social recognition in the village. The members shall also be subtly motivating their family members to adapt sustainable technology in their farming and productively use the resources.

Role of IDF: IDF has put in a trained Project team from the rural community to work in the project villages functioning as Facilitators. This team has been organizing and managing Farm SHGs, motivating the farmers to learn and adopt sustainable technology, training on value addition, financial counseling, developing farm/business development plan of each member and linkage to SBI for banking services (savings, loan) through

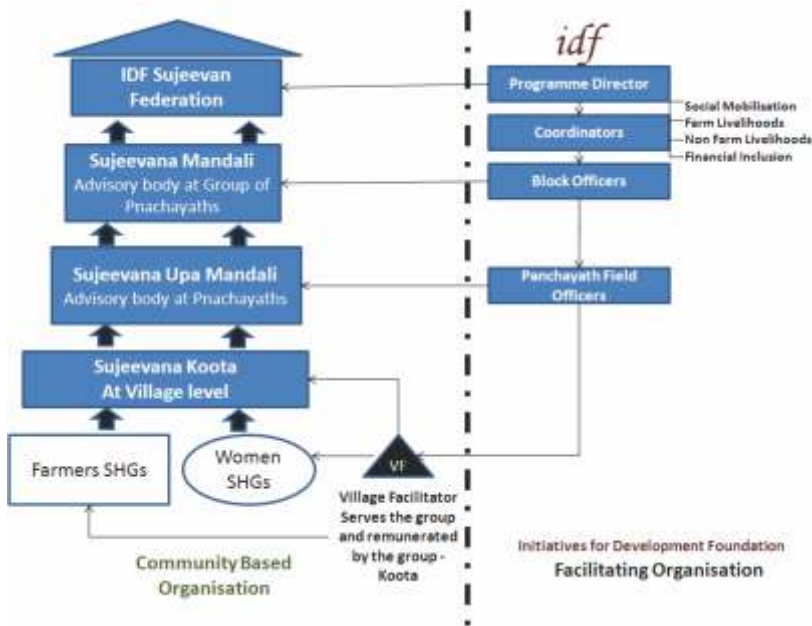


Farmers monthly Meetings:

A voluntary initiative of the Sujeevana Koota, the meeting is aimed at socialization, networking and experience sharing and action planning meeting at the village. The farmers and women groups of the village host the meeting, including all logistics, boarding expenses. They invite the members of other



Farmers Monthly meet & FFS in action



suitable processes including services and Business Facilitator and Correspondent; promotion and mentoring producers collectives to aggregate, value add their produce and gain competitive negotiating strengths in the local economy, act as bulwark in local political economy and natural resource conservator.

Producers Collective:

This would be the logical conclusion of the series of interventions planned in Sujeevan. The producers collective will be the point of pooling of produce, primary value addition and collective bargaining – marketing of the produce to get the best of market economy. The form of organization, nature of involvement of the producer community in governance and management structure, capital structure, size of membership/ operation, business vertical are in the process of evolution through consultative process. The desire for pooled marketing however, has been the felt need of the member farmers.

Role of State Bank of India:

SBI has recognized IDF as the Business Correspondent. For fast track processing of the loan proposals from the villagers, it has set up Rural Credit Processing Cell (RCPC) at Tumkur. Evaluating the loan proposals of the Farmers SHGs, the RCPC is sanctioning the loan facility under the Joint Liability Scheme through SBI branch at Kunigal. The credit services are provided initially through Kisan Credit Card – an operative overdraft.

Role of AME Foundation:

AME Foundation is providing services for capacity development of IDF project team to run the Farmers

Field School and addressing to issues faced by the farmers on technology.

Role of 'A Little World':

A Little World is an Information Technology service provider. It has provided the Point of Sale (POS) machine to IDF and helped in training the IDF team in the enumeration process. These machines are used for providing door step cash transaction services to the farmers, channeling the transaction through ALW system.

IDF envisions development of replicable standard processes for decentralized and sustained rural development owned and managed by the deprived community. Micro extension of farming technology and financial inclusion are not an end but key strategies to mobilize the community.

Focus and Achievements

#	Particulars	FY 09-10	FY 10-11
1.0	No. of villages covered	19	187
2.0	No. of Households covered	1401	5689
3.0	No. of Women SHGs		227
4.0	No. of Farmers SHGs	94	360
5.0	Groups availing bank loan through BC/BF		
5.1	No. of SHGs		81
5.2	SHG Loan (Amount I Rs in lakh)		1.3
5.3	No. of Farmers SHGs	91	260
5.4	KCC loan limit (Amount I Rs in core)	2.95	9.25
5.5	Total no. of groups	91	341
5.6	Total amount of credit from bank through BC/BF	2.95	10.55

- Increased awareness on organic farming, SRI paddy, with production and financial efficiency in farming livelihoods
- In FY 09-10 made available Rs 2.95 crores KCC (Kisan Credit Card – a operative overdraft) loan from SBI to 91 Farmers groups covering 1407 marginal and tenant farmers, based on group guarantee
- Advance and monthly repayment. Recoveries 99%.
- Monthly Sujeevana farmers meet' under the leadership of Kootas
- Unification of divided rural society
- Members responding to natural calamity – contributed 33 quintals of rice to flood affected Farmers of North Karnataka
- Group life insurance to 950 members
- Plan to cover entire Kunigal taluk and replication in different geographies

Don't Cap Microfinance Lending Rates

Retained profits are vital for MFI expansion, but will disappear with caps. Also, caps will discourage MFIs from entering remote areas most in need of inclusive finance, says Swaminathan Sanklesaria Aiyar

ET, September 22, 2010

SHOULD lending rates of micro finance institutions (MFIs) - often 28-36% - be capped? Some folk think so. Officials in Andhra Pradesh once closed down MFIs for usury, but the RBI came to the rescue, declaring there could be no cap on lending rates. Banning MFIs would only drive poor people into more expensive loans from moneylenders. MFIs have provided finance to 20 million poor people, whom nationalized banks could not reach. The RBI itself has promoted microcredit by classifying bank loans to MFIs as priority sector loans.

But now capping has again come to the fore. The finance ministry has apparently told banks to ensure that MFIs to whom they lend cap their lending rates at 22-24%. This directly contradicts the RBI policy that there should be no interest rate caps, and the RBI is the regulator of banks. It remains to be seen whether the RBI will assert itself or give way on this.

Charging poor people 30% interest sounds terrible. Resentment is building up after the IPO of SKS Microfinance, India's biggest MFI. Its shares were launched at . 1,000 and have soared to. 1,400. Other MFIs are queuing up for fresh IPOs. A sector that started as a service to the poor now looks a money-spinner, attracting private equity funds with no social aims whatsoever. Some MFIs have a return on assets of 5-6%, much higher than banks.

Is this unwarranted loot? Not at all, say the poor. They clamour for more such loans, and repayment rates exceed 99%, suggesting the interest rates are affordable.

Critics say the poor are financially ignorant and being duped. Wrong: the poor are astonishingly sophisticated money managers, simultaneously handling multiple assets and liabilities. Indeed, their annual financial turnover, as they juggle assets and liabilities, can be three times their net assets. This is detailed in a seminal new book, *Portfolios of the Poor* by four microfinance experts - Collins, Murdoch, Rutherford and Ruthven. It should be compulsory reading for the finance ministry and all other critics.

MFI lending rates in India are lower than in Mexico or South Africa. Compartamos in Mexico lends at up to 100%, yet borrowers repay. How so? An annual rate of interest is meaningless for businesses with a daily churn. A vegetable vendor borrows. 300 to buy vegetables wholesale, selling these for. 450. Even if he pays 100% per year interest on his loan of. 300, it amounts to just 90 paise/day, a negligible portion of his profits.

Many poor Indians use MFI loans to pay off moneylenders. An MFI loan at 30% to pay off a moneylender's loan at 100% is a blessing.

The poor try to save with chit funds, store cash at home, or deposit cash with 'moneyguards', who look after it. Yet all these bear risk: chit funds go bust, homes are robbed, moneyguards disappear. The poor will happily pay a fee for the safety, regularity and reliability of MFIs. If you exclude the loan processing fee or security deposit charged by MFIs, their effective interest is often just 24%.

The book tells the story of a woman who collects savings from poor

housewives and returns these in a lump sum at the end of the year after deducting her fees - so the rate of interest is actually negative! Yet her services are popular because she enforces discipline in savings, and for this, people are willing to pay a fee. The same holds for the discipline of MFIs.

CRITICS say that since banks give priority sector loans to MFIs, they should control lending rates too. Others say MFIs with an IPO bonanza do not deserve priority sector loans. But why not? Exports are a priority sector, and Tata and Ambani are not denied export finance because they are big. Nor are they subject to caps on prices or profit margins. Some software exporters have operating margins of 100%.

Large MFIs can and have cut lending rates. But new MFIs lose money for years before breaking even at 36% interest. Weekly meetings with clients are expensive but inescapable: this enforces group solidarity and loan discipline. As loans rise from. 5,000 to. 15,000, operating costs fall and interest rates can be cut. When MFIs make large business loans with monthly rather than weekly repayments, then too interest rates can be cut. In semi urban areas a single agent can handle 1,000 clients a week, but in remote areas no agent can handle over 200 clients, and that's costly.

With such diverse conditions for different MFIs, a cap of 24% is a blunt, arbitrary instrument. Retained profits are vital for MFI expansion, but will disappear with caps, which will also bankrupt small, new MFIs. Caps will discourage MFIs from entering remote areas most in need of

inclusive finance. A cap will benefit the haves (who already get microcredit) at the expense of have-nots.

Many MFIs want to become low-cost distribution networks for consumer goods. The poor buy tiny quantities of such goods, and so miss scale economies in buying. MFIs can agglomerate consumer goods for their clients, lowering prices. However, such diversification will entail initial losses. An interest cap will strangle diversification in the womb, financial infanticide so to speak.

Competition between MFIs is already lowering rates. Vinod Khosla, who has invested both in non-profits (Casper) and for-profits (SKS), says part of the bonanza from an IPO should go back to the clients. This excellent idea should become standard practice. MFIs should include this in their code of conduct.

If the finance ministry insists on MFI curbs, the least bad solution may be a cap on dividends. If high profits are ploughed back into expansion, it benefits new borrowers. That's not the case if high profits go out as high dividends. Capping MFI dividends at 12% for the next five years will be

better than an interest cap of 24%. This will still discriminate against MFIs: Infosys, Tata and Ambani don't even try to promote inclusive finance, yet face no dividend cap.

(The author is an angel investor in MFIs)



Subir Roy: Big is beautiful in microfinance

There is an inevitable good fallout from the govt's proposal to limit the interest rate levied by large MFIs getting priority sector loans from banks

Subir Roy

Business Standard
September 29, 2010

New Delhi: There is an inevitable good fallout from the government's recent proposal to limit the interest rate levied by **large microfinance institutions (MFIs)** getting priority sector loans from banks. A controversy and a vigorous discussion are emerging which will help clear issues and point towards how to make microfinance more robust and socially useful.



A research study, put out by ACCION International, compiles experience of countries as far apart as Peru and the Philippines to provide highly useful international benchmarks. A cardinal insight that emerges is: smaller the loan size, higher the yield needed to break even, as administratively it costs about the same to make a loan, big or small. And what really works is removing barriers to entry, promoting competition and, above all, greater transparency.

To get to responsible pricing, you need standardised data. Regulators, networks and investors should ask for data from MFIs on total cost of credit so as to study how costs and interest rates work at the bottom of the pyramid which has till now received scant analytical attention. Also, it is necessary to determine what is the return on investment for the poor. A 50 per cent interest rate may look high but not so if the client earns a 100 per cent return from deploying the loan.

The overall aim must be to lower indebtedness, not raise it as a result of microfinance. (Beware of multiple lending!) Prices should not be subsidised, be market-oriented and competitive. Both the MFI and the customer should earn a reasonable return. The norm should be to reinvest as much as possible to increase value to customers (lower interest rates). And

penalties should be minimised so as not to prevent customers from changing lenders.

To promote responsible pricing, various devices have been used so far. Around 30 countries use interest rate caps. But they can make giving short-term loans (which cost more to deliver) unattractive. This can be counterproductive for the poor. Some suggest margin caps. **Muhammad Yunus** outlines three categories — green: interest rates not more than 10 per cent above the cost of funds; yellow: 10-15 per cent above; and red: 15 per cent or more above. But this does not take into account the cost of delivery, aside of the cost of funds. So, trying to make one size fits all can work against small loans that cost more to offer.

Another device suggested is a cap on return on equity. This can discourage commercial investors who come seeking higher returns and end up rewarding inefficiency. Further, it does not look at how the profit is used — distributed or ploughed back. High profit distribution can even be acceptable as in the case of credit societies which pay out their profits to members. Some institutions like MicroFinance Transparency lay great stress on transparency. If you know the reality, solutions become obvious. But data, which are points-in-time,

take long to gather and the poor can't understand and use them on their own.

Even promoting competition, which is time-consuming, and welcoming market forces and instruments can result in unintended consequences. The report says: "In an age of IPOs and stock options, market forces can also encourage financial service providers to maximise short-term profits over long-term, sustainable relationships with clients. This has been the case recently in India, where intense competition has led to a rapid increase in clients (from one million in 2002 to 15 million in 2009). While the market theory would suggest that this increasing competition would lead to a decrease in prices, the opposite has been true. Average portfolio yield has increased from 19 per cent in 2002 to 31 per cent in 2009. **MCRIL, an Indian microfinance rating agency**, suggests that this increase in price has been driven by some of the country's

largest MFIs seeking to increase profits in order to boost their equity valuations."

The cardinal Indian reality, going by the **2010 report of Sa-Dhan, the umbrella association of microfinance organisations**, is that size matters. The biggest, those with the largest loan portfolios (exceeding Rs 500 crore), have the highest yields or interest rates (33 per cent), the lowest expense ratio and high return on equity and assets. The 10 largest MFIs hold nearly 80 per cent of the total portfolio but only 7 per cent of MFIs are very large. Very large MFIs account for 76 per cent of clients. Eighty per cent of negative net worth MFIs are small and no large or very large MFI has a negative net worth.

Very large MFIs have the lowest portfolio at risk (PAR). Nearly 70 per cent of MFIs have PAR of less than 1 per cent. Indian MFIs are thus healthy. Twenty of the 30 MFIs having a negative return on equity (ROE) have a yield higher than 20 per cent, while

17 of these 20 have a spread of more than 10 per cent. This shows that a high yield does not necessarily translate into a high ROE. MFIs have a return on assets (ROA) way above that of banks, with 62 per cent earning 2 per cent or more. MFIs are more or less (78 per cent) operationally self-sufficient. The capital adequacy ratio or CAR (capital to asset) of MFIs is quite good; nearly 70 per cent have a CAR of over 10 per cent. So, MFIs will be able to sustain growth.

Since loans from banks are an issue, let's look at MFI debts. Large and for-profit MFIs account for a lion's share of the sector's total debt. Nationalised banks account for the largest share of MFI debt, 43 per cent. Non-profits record the highest debt whereas for-profits owe nearly as much to private as to public sector banks. These statistics tell us that a few large for-profit MFIs, which are healthy, dominate the scene. Promoting transparency and regulating them should not be difficult.

SHGs in Orissa deposited Rs 290 Crore in Banks

Orissa Diary
September 30, 2010

Bhubaneswar: About 50 Lakh women are involved with 4.39 lakh Self Groups organized in the state. Are successfully implementing the Social and Financial Programmes in the state. They will be more empowered from October, after implementation of the Central sponsored NRLM Programmes. The **NRLM** will provide infrastructures to the SHGs working under the Mission Shakti. It has been decided in a high level review meeting held in the Orissa Secretariat on the progress of the SHGs chaired by the **Chief Minister Naveen Patnaik**.

As per the information the review meeting the SHGs have deposited Rs 290 Crore in the Banks and availed credit of more than Rs 200 crores. By the NRLM permanent infrastructure will be available in each Panchayat, Block and district level. One employee in every Panchayat, 5 employees in every Block and 7 to 9 employees will be appointed in every district level. At

least one from every family will be a member of SHG. Cluster Federation will be constituted by 15 to 20 SHGs, and then **Panchayat Federation and Federation** will be constituted. Every SHGs will be provided Rs 15,000/- and every Federation will be provided Rs lakh.

They will be provided credit facility from Banks in 7% interest instead of 18%. The state government will bear 25% and the centre government will bear 75% of the funds of the The NRLM. In every year the state government will invest Rs 300 to Rs 400 crore per annum. Mission Sakti Centres will be opened in every Panchayat to train the SHGs. **Mission Sakti Coordinators** will be appointed in every Panchayat, Block and district level. As per the report of the review meeting Rs 25 Crore has been provided to 50 thousand SHGs and Rs 25 Crores to 100 Block federations during the year 2009-10. The PDs distribution are well managed by 7,400 SHGs. And the SHGs are managing Mid Day Mills in 48,571 schools.

Among others Chief Secretary Bijaya Patnaik, Additional Commissioner Rabi Narayan Senapati, Principal Secretary to the Chief Minister Aditya Prasad Padhi, Secretary of Womens and Child Welfare department Ahuja, Director of Mission Sakti Sujata Kartikeyan and other high level officials were present.

Banks told to lend more to SHGs

The Times of India
September 29, 2010

HYDERABAD: Taking a dig at the tardy progress in lending to self-help groups and conversion of crop loans to farmers affected by severe drought/flood last year, chief minister **K Rosaiah** urged bankers to improve their delivery mechanism. Addressing the 171st **State-Level Bankers Committee** (SLBC) meeting on Tuesday, the chief minister expressed satisfaction at the overall performance under the annual credit plan for the first quarter ended June 2010, where the achievement has been Rs 15,103 crore (22.97%) against the plan outlay of Rs 65,763 crore. "The credit line for agriculture sector is Rs 10,948 crore up to end of June, of which crop loan is Rs 6,182 crore. However, disbursal of crop loans up to September 15 is to the tune of Rs 13,327 crore, accounting to over 76% of target of the Rs 17,473 crore for kharif," he said.

Rosaiah said the aggregate lending to SHGs was Rs 1,890 crore as on August 2010 against an ambitious target of Rs 11,775 crore set for this year. The chief minister observed that he had been receiving complaints from farmers that the benefit of crop loan conversion was not being extended to them. "Only 32% of the eligible loans have been converted. I request all the banks to ensure that complaints of this nature are redressed without further loss of time," he pointed out.

Regarding lending to tenant farmers, Rosaiah said, "I regret to state that financing of tenant farmers through joint liability groups has not progressed despite clarifications issued by Nabard. I had expressed the hope that banks would start lending through joint liability groups from the current kharif season, but no progress has been achieved so far. I request the line of action proposed in this regard." Rosaiah called upon the bankers to work out strategies to achieve 10% annual growth in the number of **MSME (micro, small and medium enterprise)** accounts. He called upon bankers to sensitize branch managers in semi-urban and urban areas about the RBI guidelines as well as the provisions of the Credit Guarantee Trust for Medium and Small Enterprises Scheme so that banks extend collateral-free loans up to Rs 1 crore to the MSME sector.

He pointed out that the priority sector lending to minorities was 7.43% till June 2010 against the mandatory 15% share as proposed under the 15-point programme of the Prime Minister for the welfare of minorities. Rural development minister Vatti Vasant Kumar in his remarks asked bankers to take a close look at the slow, but effective penetration by micro-finance institutions in areas that are being left uncovered by them for a variety of reasons. He said the high rate of interest in the range of 36% to 48% per annum charged by MFIs from poor farmers was not an encouraging trend.

Micro insurance is now macro business

Shilpa Phadnis
The Times of India
September 30, 2010

Fifty two-year-old Madanpal is a milk procurement supervisor at Ludhiana Milk Union. He maintains checks and balances at the local collection centre and settles accounts. But he also doubles as a part-time insurance agent, educating colleagues on the benefits of having a life cover. Like Madanpal, many grassroots representatives are being roped in by insurers to shore up presence in India's hinterland. And micro insurance is gradually becoming big business.

Bajaj Allianz Life Insurance, a JV between Allianz and Bajaj FinServ, is betting on dairy co-operatives. The insurer has a customized life insurance product with a savings component. Called **Sarva Shakti Suraksha (SSS)**, the 5-year endowment plan charges a monthly premium of Rs 45 for a policy value of Rs 25,000. The

policy is simple, and even if a premium is delayed, the policy does not lapse.

The milk co-operatives have a sizable base of 13 million members who collect 110 million tonnes of milk valued at Rs 1,80,000 crore. SSS has been a success with cooperatives like the Punjab State Cooperative Milk Producers' Federation that has four lakh members. "We are now looking to replicate the dairy model in the south. We've come a long way from merely looking at microinsurance as a regulatory requirement that we need to fulfil. Since 2008, we have sold 40 lakh SSS policies with Rs 450 crore of assets under management," said **Yogesh Gupta, the head of micro insurance and business procurement at Bajaj Allianz.**

Buoyed by the response, the company has set a target of

selling another 20 lakh policies by the end of the current fiscal, taking the tally to 60 lakh policies. The company has also joined hands with SKS Microfinance to market the SSS policy. **MFIs (micro finance institutions)** are the most popular distribution channel for micro covers. Aviva Life Insurance has tied up with BASIX, Arohan and Anjali Microfinance to distribute policies. "We have sold 2 million policies so far. Around 55% of our business comes from MFIs," said **T R Ramachandran, chief executive of Aviva Life Insurance** India. Insurance regulator IRDA estimates that life insurance companies sold 14.7 million micro-insurance policies in the fiscal 2009, representing new premium collection of \$53 million.

Important Upcoming Events

- Valuation and Value Based Management of Banks, 8 – 10th November 2010, Bangalore, organized by NIBM
- Nineteenth International Management Appreciation Programme for Voluntary Agencies (VOLAG-MAP 2010), 15 – 20th December 2010, Anand, organized by IRMA
- Microfinance India Summit on "Mission of Microfinance - Need to Reflect and Reaffirm", 15 – 16th November 2010 at Hotel Ashok, New Delhi organized by ACCESS Development Services
- Quality Management and Statistical Quality Control, 22 – 25th November 2010, Anand, organized by IRMA
- Programme in SHG and SGSY, 10 – 12th November 2010, Chennai, organized by NIBM
- Risk Management of Commercial Contracts, 13 – 16th December 2010, Bangalore, organized by NIBM
- Data Management Skills, 7 – 9th December 2010, Anand, organized by IRMA
- Corporate Governance in MFIs, 9 – 11th December 2010, Gurgaon, organized by M2i
- Removing Poverty: Constraints, Opportunities and Strategies, 14 – 17th December 2010, organized by IRMA
- Gearing for Competitive Challenges – Making Organisations More Efficient, 14 – 17th December 2010, Anand, organized by IRMA
- Marketing Essentials for Development Professionals, 21 – 23rd December 2010, Anand, organized by IRMA