

State of Microfinance

Looking back; Looking ahead

In Search of “a mission beyond growth”

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Trends

- Impressive growth in lending
- Steady growth in SHG clients (18%)
- Vigorous growth in MFI clients (40%)
- Entry of more MFIs; increasing competition
- BC/BF showing signs of take-off
- Slower growth of micro-insurance
- Excitement in urban markets

Client Outreach

Millions

| Segment | 2006-07 | 2007-08 | Growth in outreach |
|----------------------------|---------|---------|--------------------|
| Banking system (SHGs) | 38.02 | 45.20 | 7.18 |
| MFIs | 10.04 | 14.01 | 3.97 |
| Total | 48.06 | 59.21 | 11.15 |
| Total Adjusted for overlap | 44.97 | 54.87 | 9.90 |

The broad microfinance sector

| Institutional form | Clients million (2006-07) |
|----------------------------------------------------------------|------------------------------|
| Commercial banks and RRBs small loan accounts | 38.6 |
| Primary cooperative societies Borrowers (small, vulnerable) | 26.5 |
| SHGs – members | 39.9 |
| MFIs – clients | 14.1 |
| Total | 119.1 |

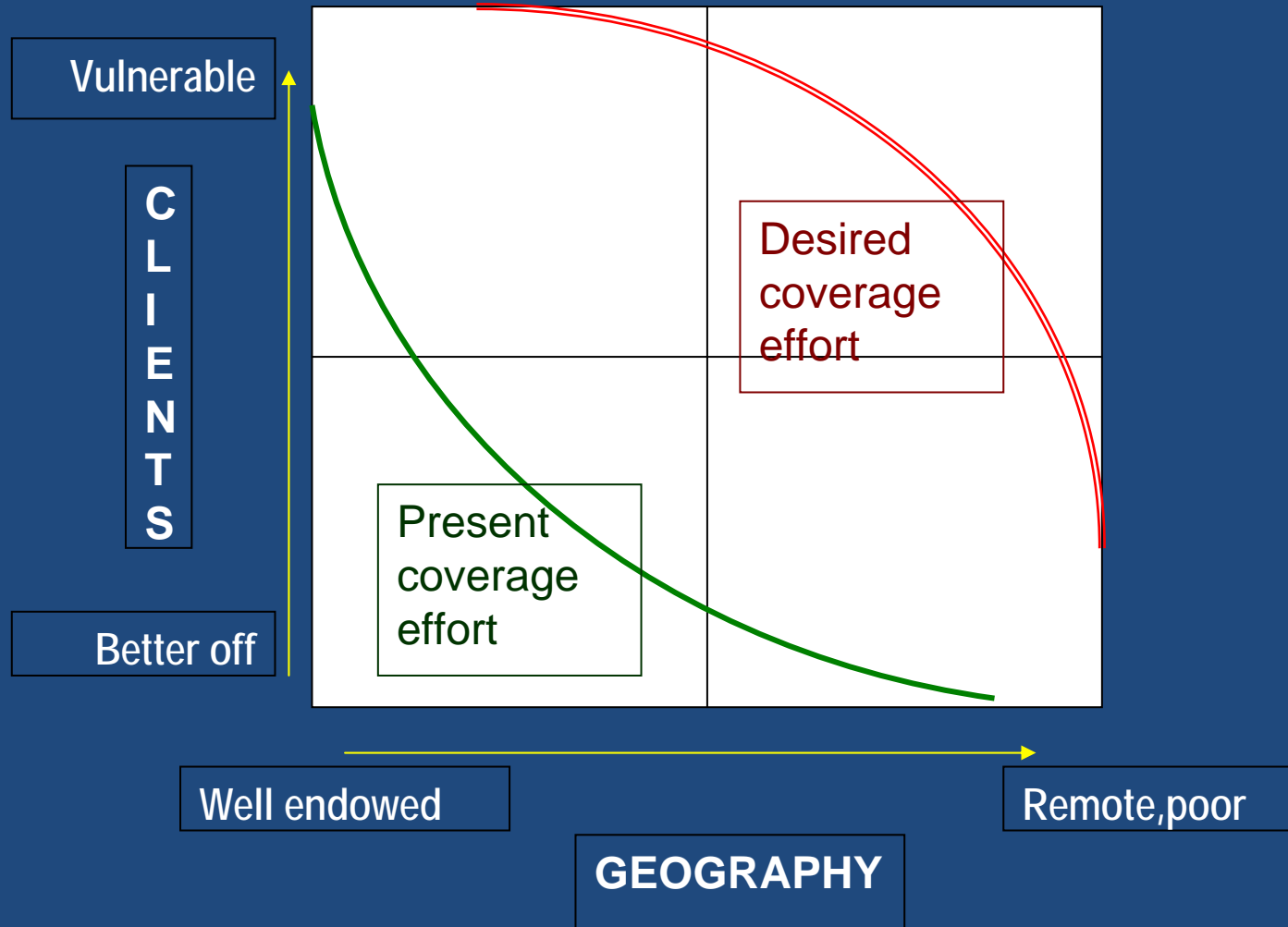
Outreach - comparison

| | |
|-------------------------------------------|--------|
| Cumulative number of SHG members (mn) | 45.20 |
| Total number of MFI borrowers (mn) | 14.01 |
| Growth rate of outreach of SHGs | 18 % |
| Growth rate of outreach of MFIs | 40 % |
| MFIs Loans outstanding (Rs bn) | 59.54 |
| SHG loans outstanding March 07 (Rs bn) | 123.66 |
| Growth of MFIs loans outstanding (Rs bn) | 24.98 |
| Average loan outstanding, SHG member (Rs) | 3250 |
| Average loan outstanding, MFI client (Rs) | 4220 |

Sector on the move – where to?

- More emphasis on widening than deepening
- Most NGOs want to become MFIs – and many aspire to be NBFCs
- Evidence of decline in interest rates (but for how long?)
- Intensifying competition – not leading to entirely positive results
- More interest in equity play – but for select institutions
- Financial inclusion is the season's flavour
- Farm loan waiver – hurts sentiment?

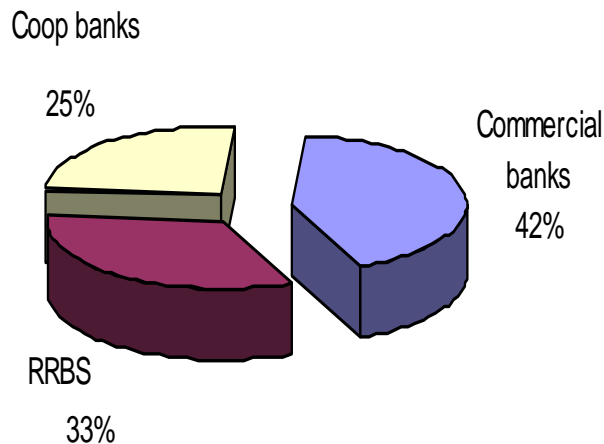
Microfinance coverage



Snapshot of SHG linkage

- **Top five States in SHG linkage - Maharashtra, Orissa, Tamil Nadu, West Bengal, Andhra Pradesh**

Agency wise share of groups financed 2007-08



| Agency | Banks with less than 75% recovery |
|------------|-----------------------------------|
| Comm banks | 6 out of 22 |
| RRBs | 15 out of 73 |
| Coop banks | 36 out of 170 |

Savings of 4.2 mn SHGs – Rs 35 bn

NCAER study

- Many positives – income growth, ability to spend on education and health, increasing savings rate and borrowings, 60 % groups exclusively of disadvantaged people
- Concerns - book keeping, falling recovery rates, inadequate compensation to NGOs for group formation, intra group discipline
- Social impact assessed to be positive

Snapshot of MFI progress

- Eight and seven Indian MFIs make to the top 50 in MIX market and Forbes lists

| Top 5 MFIs – by clients No. Mn | | Top 5 MFIs–by loan outstanding Rs Mn | |
|-------------------------------------------|------|-------------------------------------------------|------|
| SKS Microfin.. | 1.88 | SKS Microfin.. | 7818 |
| Share Microfin | 1.29 | Spandana | 7285 |
| Spandana | 1.19 | Share Microfin | 5953 |
| Bandhan | 0.76 | SKDRDP | 3370 |
| Asmita Microfin | 0.70 | Asmita Microfin | 3360 |

Region wise share of MFI portfolio (%)

| | Clients | Loans |
|-------|---------|-------|
| East | 21 | 15 |
| North | 4 | 6 |
| West | 9 | 4 |
| South | 66 | 75 |

Profitability of MFIs by legal form

| Legal form | ROGLP % | ROE % |
|--------------------|---------|-------|
| Cooperatives | 2.4 | 6.5 |
| Societies & Trusts | 1.8 | 31.8 |
| NBFCs for profit | 0.9 | 5.0 |
| MACS | 0.3 | 1.8 |
| Sec 25 companies | -2.3 | -18.6 |

Policy climate

- Tightening regulation over NBFCs
- Basel II norms on banks - higher regulatory capital for lending to MFIs
- Two financial inclusion funds set up
- Mobile banking guidelines in place
- Initiative on financial inclusion and literacy
- Microfinance bill – stalemate
- BC/BF norms made more restrictive

Inferences

- More emphasis on widening – cost implications?
- Clients still not a priority
- Client acquisition – touch and move models
- Growth happens – but inclusion?
- Social performance – intent *sans* action
- Micro-insurance – driven more by state

Are poor being served?

- More is being done than in the past – but not enough
- Large funds flow to more clients – but small uniform quantities, not adequate in many cases
- Engagement with poor is minimal – increases risk of client and lender
- Product diversity – client forced to accept sub-optimal products, pricing and tenor
- Savings – the forgotten betterhalf !
- Processes not always inclusive – lack transparency
- Remote areas gradually come into reckoning
- Some good pilots in insurance and pensions – scaling up is the challenge

Challenges

- Mainstreaming savings agenda in microfinance
- Upgrading internal systems to ensure quality of growth
- Ready HR to meet the large needs
- Funds flow for medium & small MFIs (esp. equity)
- Keeping banks and NGOs interested in SHG model
- Dealing with the meltdown and liquidity squeeze
- State sponsored federations of SHGs – how to make them responsive

Challenges

- Taking the inclusion agenda beyond blessing of a bank account
- Product diversity in loans
- Product development in micro-insurance
- Regulation – changes to improve institutional response to clients
- Client protection and education
- Enabling quality service institutions to support growth of the sector

**Thanks to all who supported
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