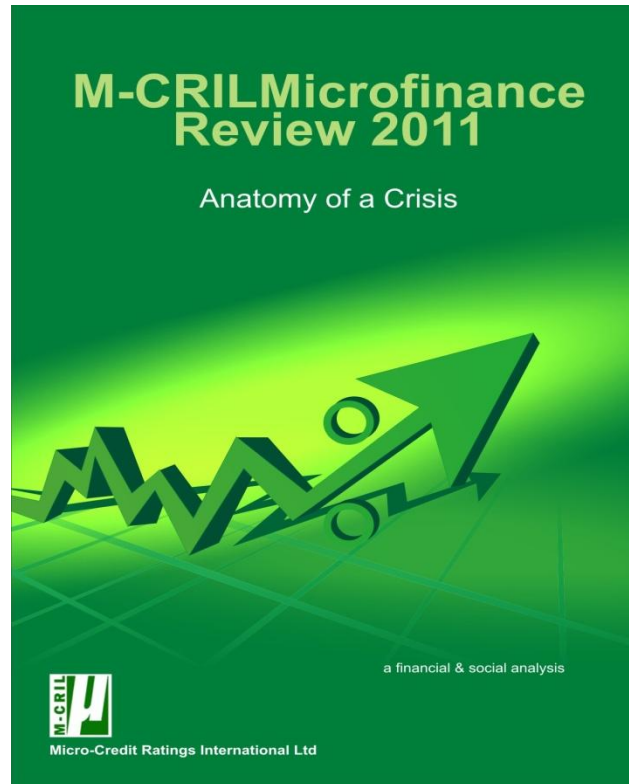


# The Indian Microfinance Adventure

## Evolution of Indian microfinance leading up to the crisis



## Savings and Credit Forum

Bern, 11 May 2012

Sanjay Sinha

602 Pacific Square, 32nd Milestone NH8, Gurgaon 122001 INDIA

[sanjaysinha@m-cril.com](mailto:sanjaysinha@m-cril.com) Tel: +91 124 230 9497, 230 9707 Fax: +91 124 230 9520

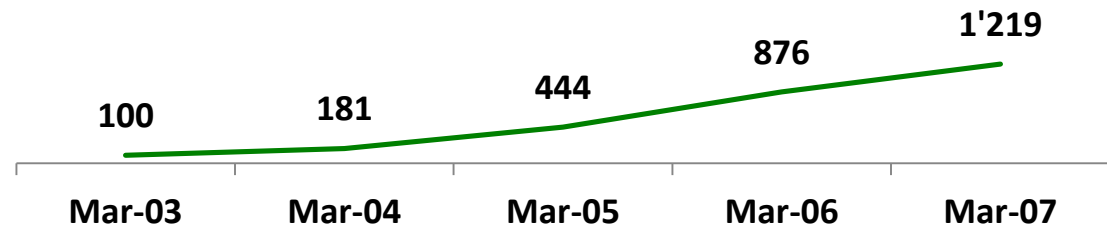


# To begin with Indian microfinance grew due to a sense of responsibility

A country of a billion people with some 400 million absolute poor by global standards and

...over 600 million financially excluded by any measure

High growth of a **small** industry in 2002-07 was understandable



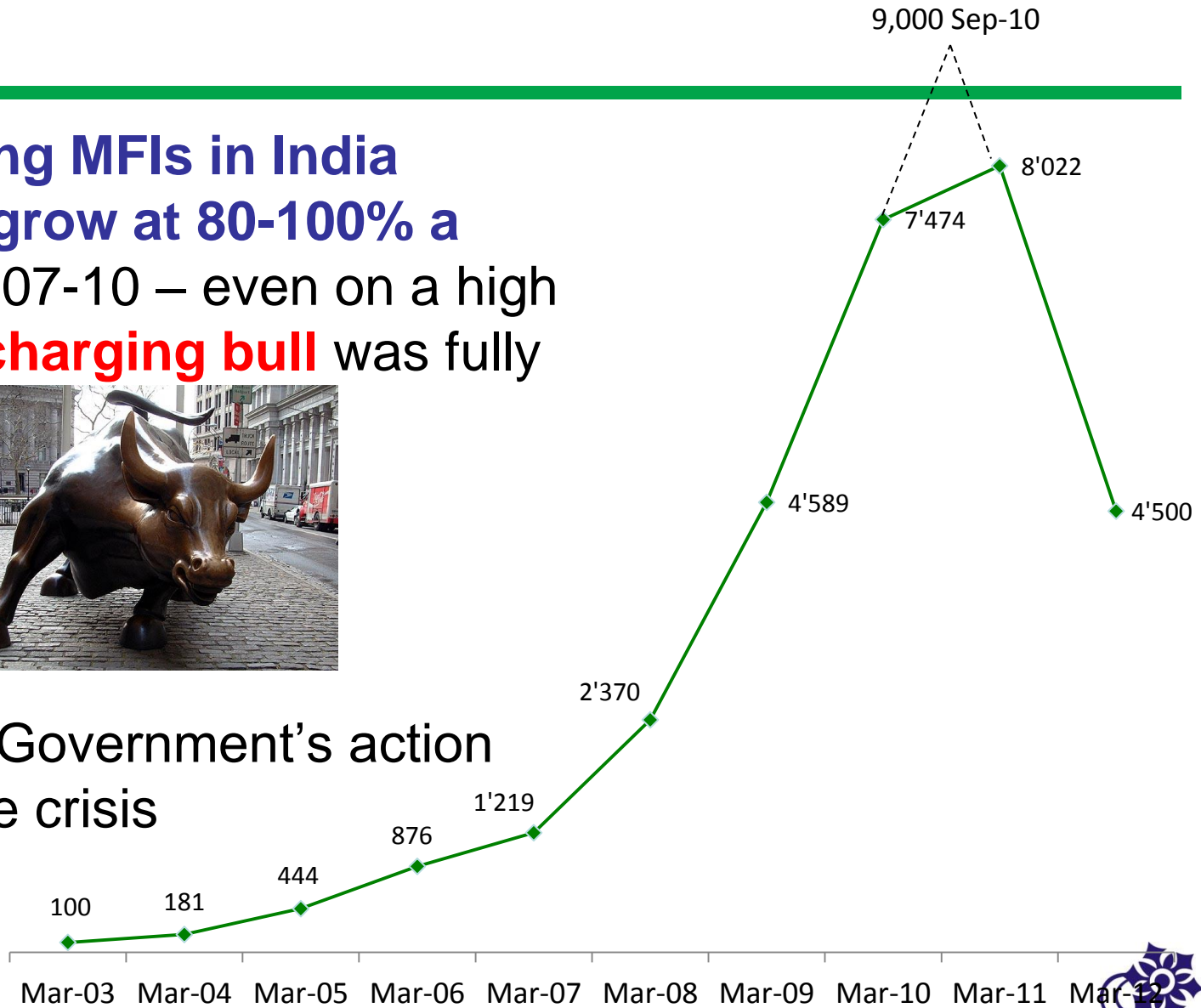
**CRILEX: M-CRIL's Index of MFI growth**

# Then IPOs became the gold standard

And the leading MFIs in India continued to grow at 80-100% a year during 2007-10 – even on a high base and the **charging bull** was fully unleashed



...until the AP Government's action precipitated the crisis

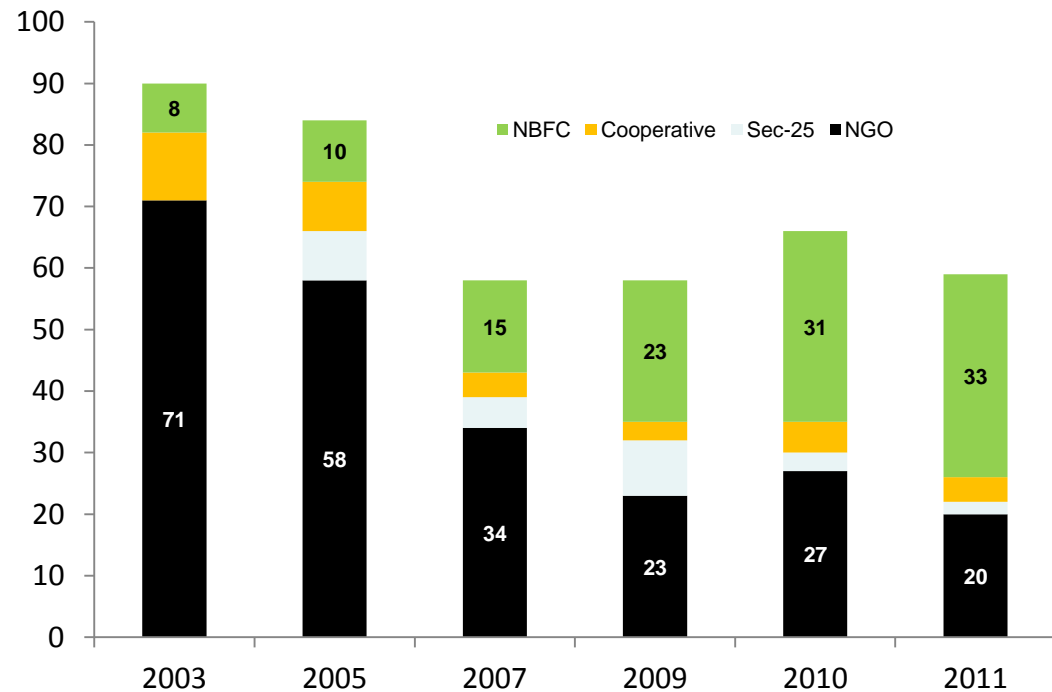


**CRILEX: M-CRIL's Index of MFI growth**

# ...but MFIs needed equity first in order to grow to an appropriate size

- Capital adequacy requirements for good financial management meant that MFIs needed equity as well as loan funds to grow

- For which they had to transform into commercial entities



# ...and they promised commercial investors high returns

---

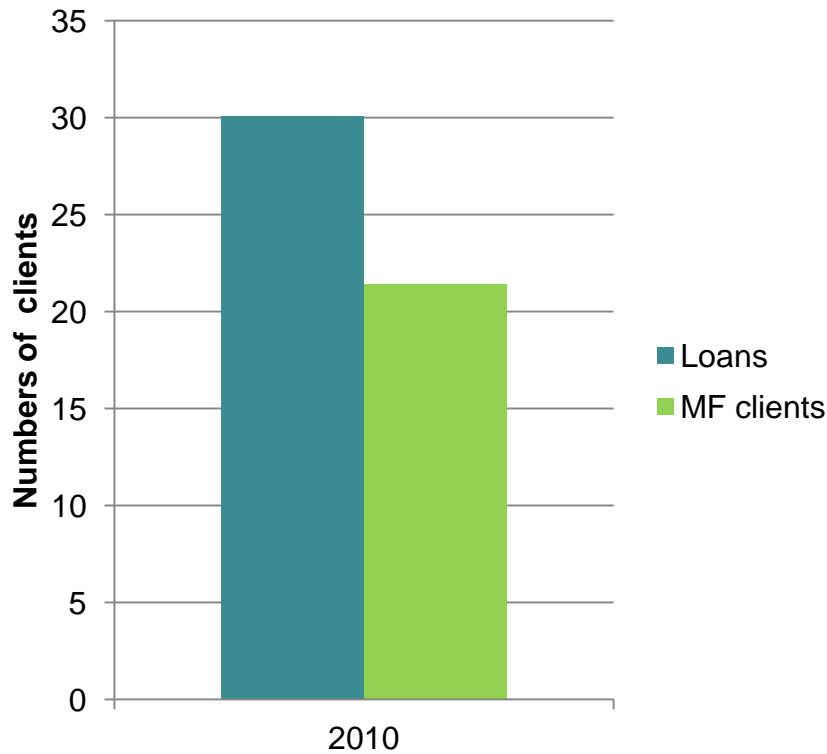
- To obtain equity investments and become acceptable to commercial investors
- Equity came in at high valuations by **promising** continued high growth and related high returns

# Did commercial investors “demand” high returns?

---

- So high growth had to be delivered if promises were to be fulfilled
- It was quicker and **less costly to deliver high growth in the better connected, better governed, easy to reach areas** (the proverbial “low hanging fruit”)
- It was this that led to geographical concentration and multiple lending

# Microfinance saturation & multiple loans



M-CRIL has estimated that the number of microfinance loans exceeded the number of clients by 40% before the crisis started in 2010

## Microfinance saturation & multiple loans...continued

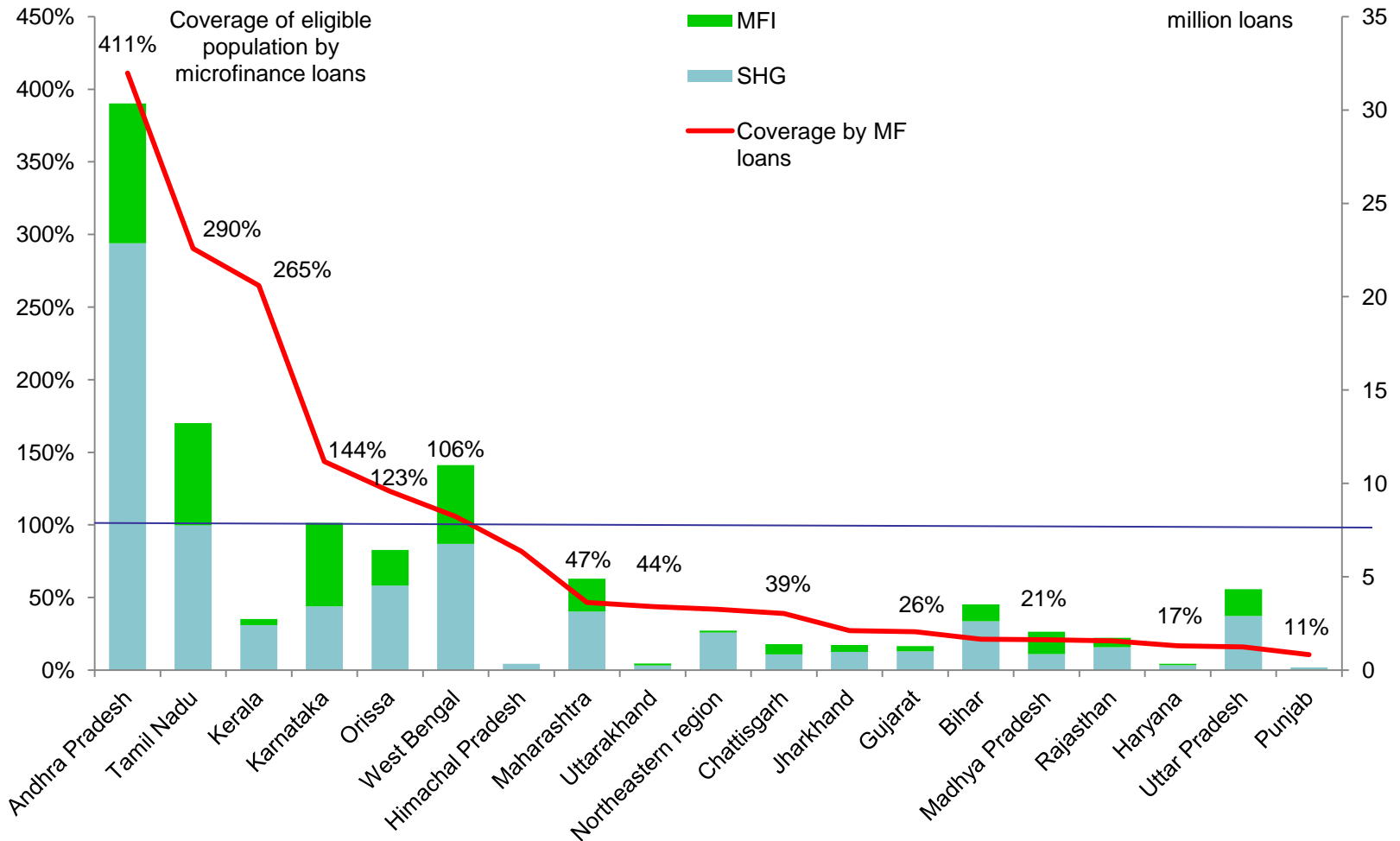
---

And **distribution is uneven** so there are parts of India – the poorer northern states and parts of central India, the hill states and even some pockets of the southern states (AP, Tamil Nadu) – where MFIs have not extended their services...

...while in many places in South India and in the eastern state of West Bengal the overlap is 100% and **many clients have 3-5 MFI loans**



# Microfinance saturation & multiple loans...continued



# Microfinance saturation & multiple loans...continued

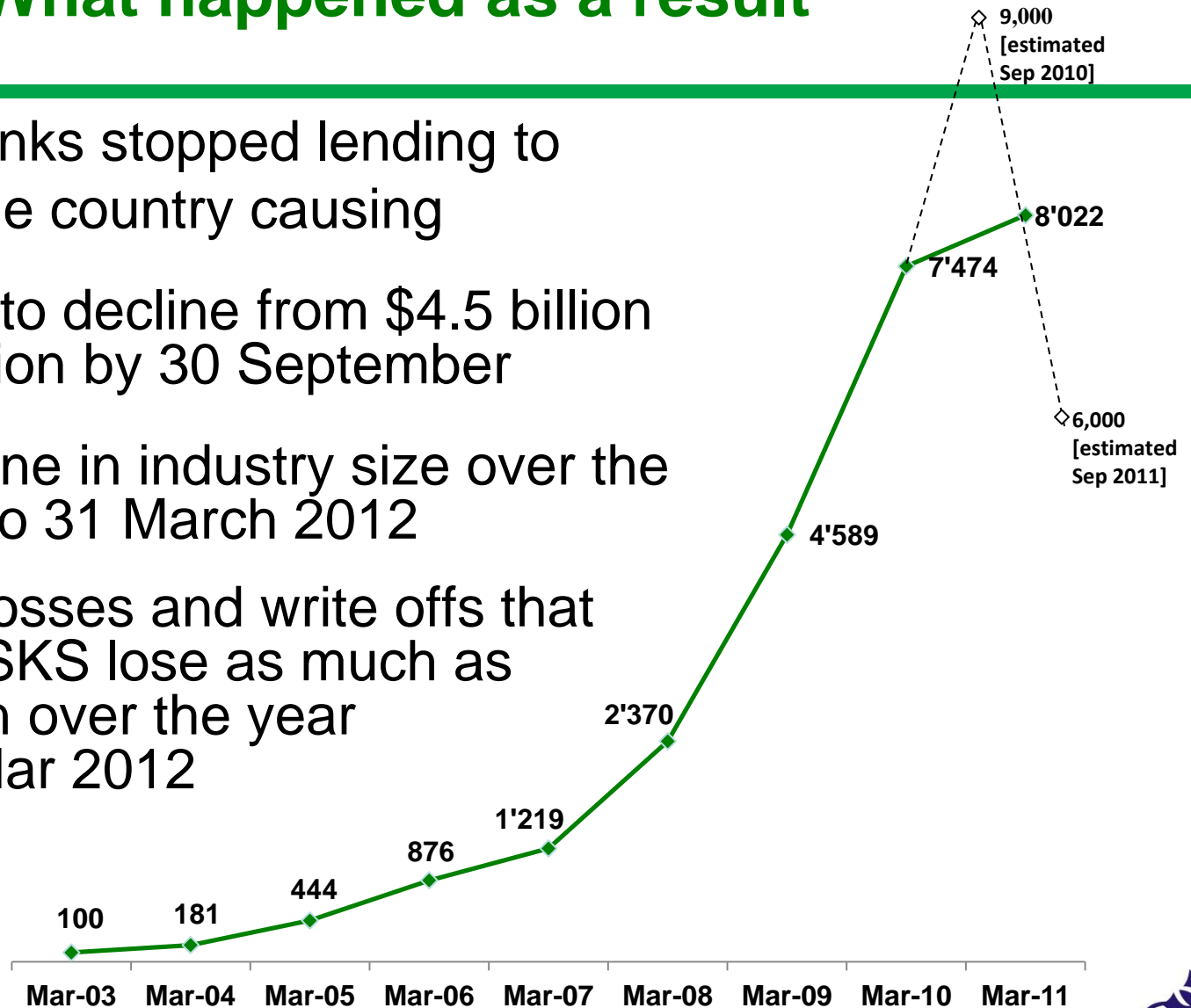
---

- The **immediate cause of the crisis** was the resulting perception in AP (south India) that clients were over-indebted and a presumption that this had led to suicides

# What happened as a result

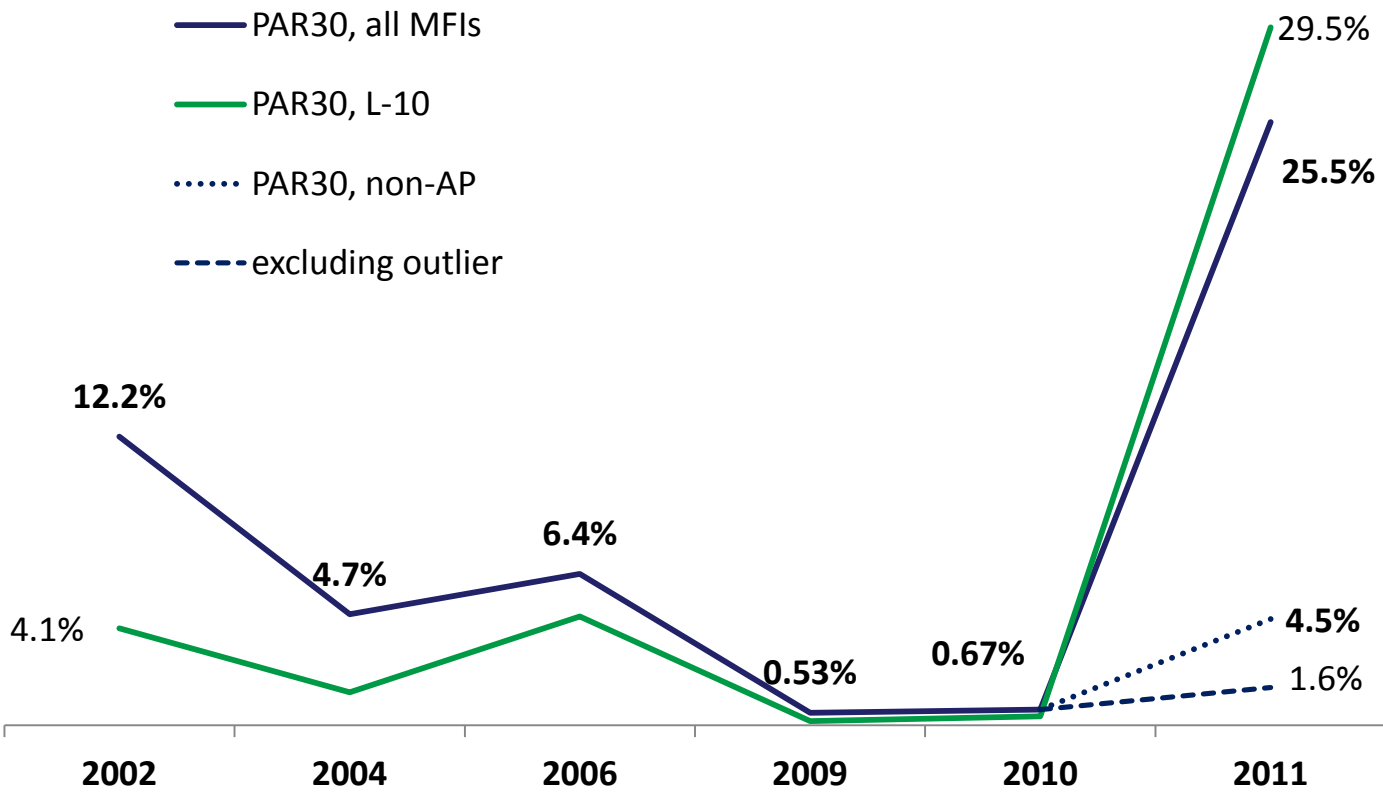
Commercial banks stopped lending to MFIs all over the country causing

- Bank funds to decline from \$4.5 billion to ~\$2.7 billion by 30 September
- A 50% decline in industry size over the 18 months to 31 March 2012
- Huge loan losses and write offs that have seen SKS lose as much as \$200 million over the year Apr 2011-Mar 2012



**CRILEX: M-CRIL's Index of MFI growth**

# What has happened since...portfolio quality

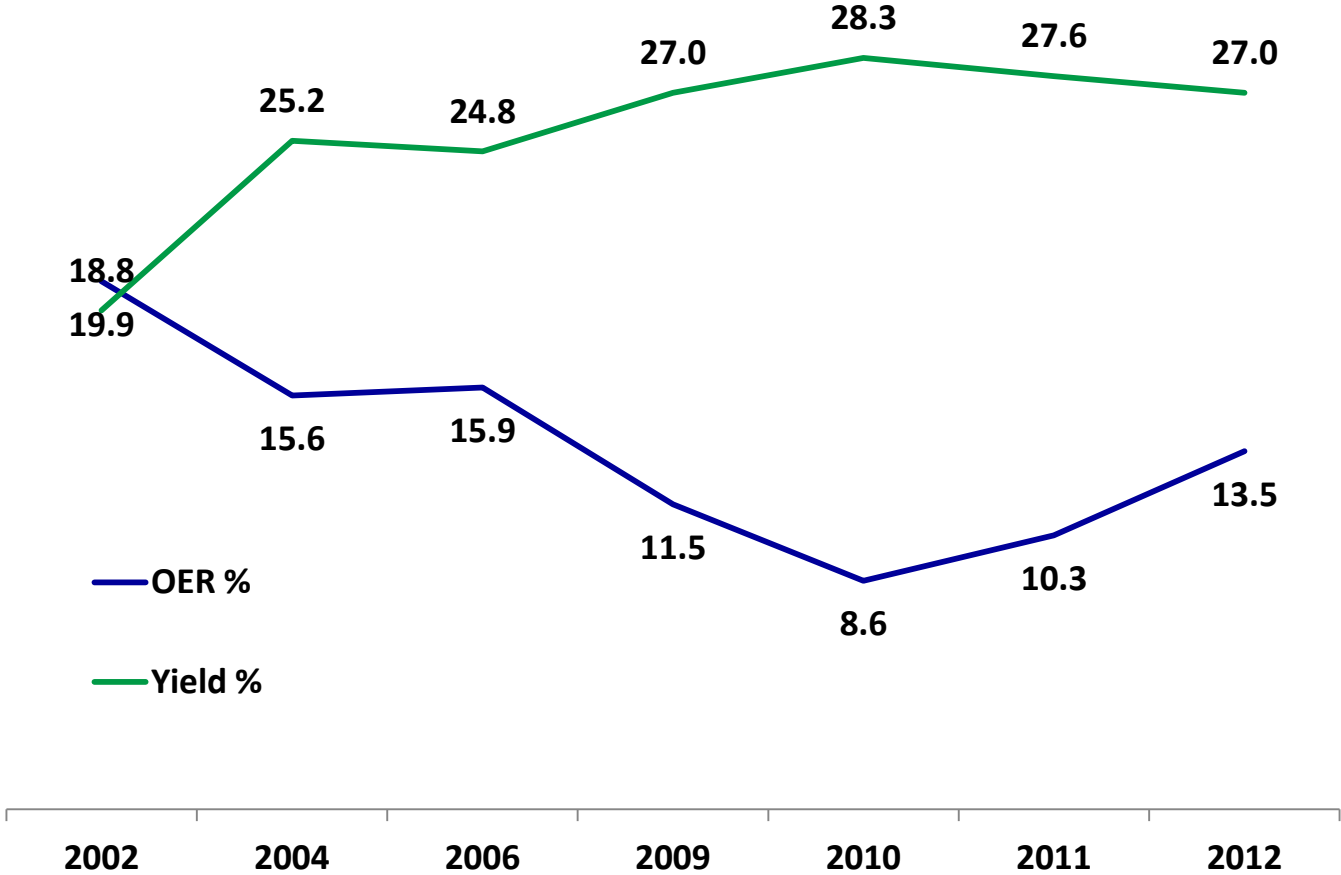


# What has happened since...portfolio quality

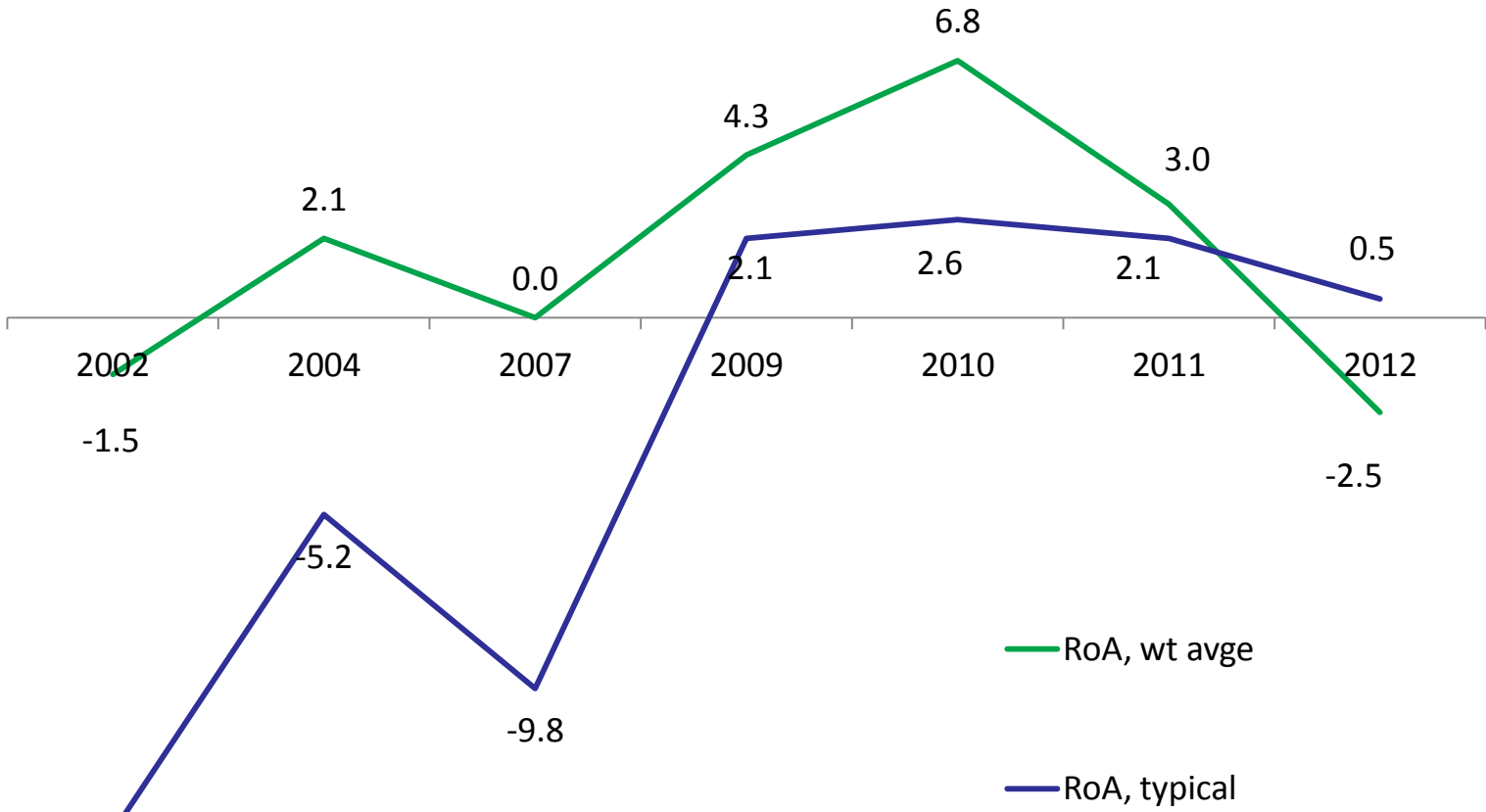
---

<b>PAR30 ratios, March 2011</b>	<b>%</b>
SKS	not reported
Spandana	47.8
Share Microfin	52.1
Basix	37.8
AML	48.3
Bandhan (non-AP)	0.6

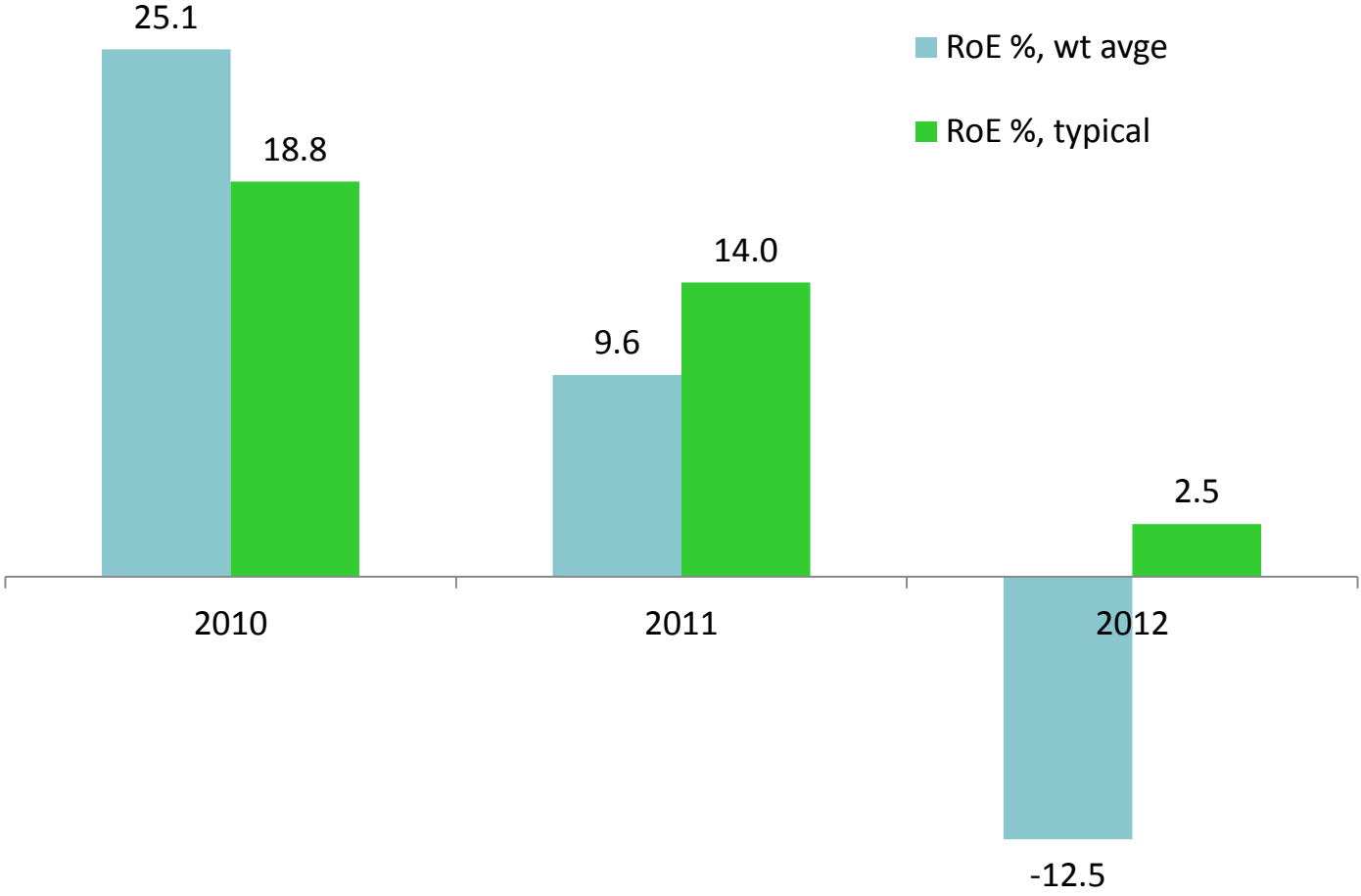
# What has happened since...operating expenses



# What has happened since...return on assets

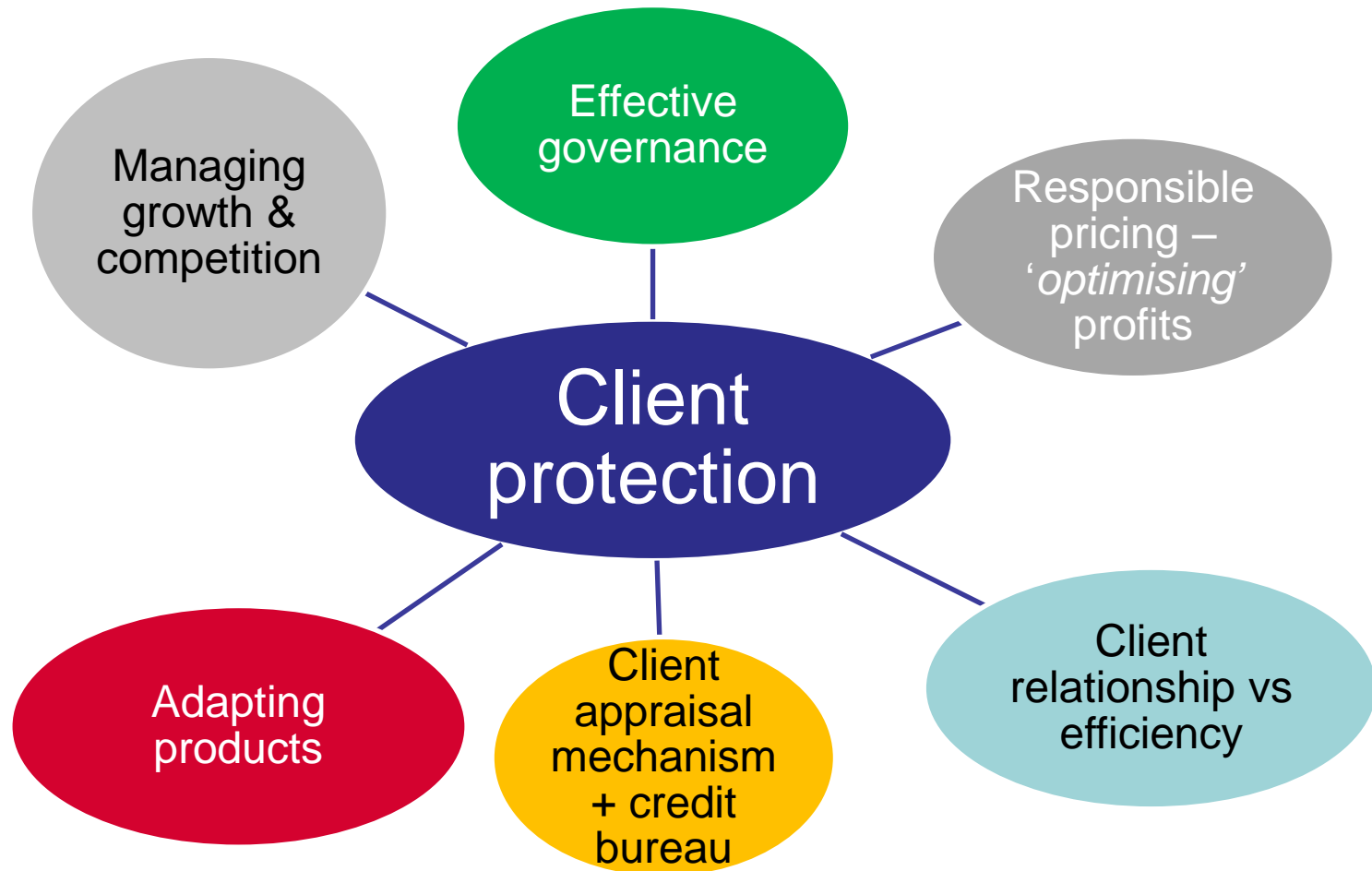


# What has happened since...return on equity





# There needs to be a focus on value – for clients



# Responses – within India, currently

---

- Regulation – microfinance bill before parliament ...
- Reserve Bank of India (priority sector circular, July 2011):
  - Micro-credit - margin/pricing cap, household income eligibility, loan size cap
- MFI networks: Credit bureau, Code(s) of conduct
- Investors/Banks: Revise assessment of risk/sustainability, Code of Conduct Assessments
  
- MFIs: must comply to survive; + Banking correspondent for savings; national pension schemes; effect of the pricing cap?
- Clients: ? Currently reduced options for credit; in AP back to informal moneylenders, SHGs not filling the gap for everyone...

# Responses internationally (incl. before the India crisis)

---

- Investors/funders: social scorecards; seat on MFI board for equity investors – influence governance
  - Specialist microfinance rating agencies: ‘Responsible Finance Ratings’, Social Ratings
  - TA providers: Client Protection, ‘Social Performance Management’
  - Integrated reporting
- 
- **Smart Campaign:** Client protection principles
  - **Social Performance Task Force** – standards of SPM
  - **Seal of Excellence:** *beyond ethical finance* – genuine financial inclusion and value for poorer clients

# Looking ahead

---

- Fundamental shifts in how we think of microfinance
- Don't take anything for granted – despite apparently huge 'underserved' markets, and pictures of smiling clients
- Focus now on systems and evidence – everyone plays a role
- Values beyond the financial balance sheet – practical ways to measure and report on aspects like depth of outreach, levels of indebtedness and overall impact.