Study on Credit Enhancement Practices – Institutional Lending to Microfinance Institutions- Role and Impact of Portfolio Risk Fund

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Small Industries Development Bank of India (SIDBI)

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Final Report

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List of Acronyms

Acronym	Expanded Form
Bn	Billion
CAGR	Compounded Annual Growth Rate
CSP	Credit and Savings Programme
DER	Debt to Equity Ratio
FDR	Fixed Deposit Receipt
FLDG	First Loss Default Guarantee
FY	Financial Year
FYI	First Year Intensity
GLP	Gross Loan Portfolio
GoI	Government of India
M2i	Prime M2i Consulting Pvt. Ltd.
MFI	Micro Finance Institution
Mn	Million
NBFC	Non Banking Financial Institution
NE	North East India
NGO	Non-government Organization
OSS	Operational Self Sufficiency
PRF	Portfolio Risk Fund
PwC	PricewaterhouseCoopers Pvt. Ltd.
RoA	Return on Assets
RoE	Return on Equity
Rs.	Indian Rupee
SC	Scheduled Caste
SFMC	SIDBI Foundation for Micro Credit
SHG	Self help group
SIDBI	Small Industries Development Bank of India
SMEs	Small and Medium Enterprises
ST	Scheduled Tribes
USD	United States Dollar
UT	Union Territory

Executive Summary

Micro Finance Institutions (MFIs) have emerged as an important channel of delivery of financial services, particularly credit, to low income clients. MFIs have been constrained for capital and have found it difficult to raise funds for on-lending, particularly during the early stages of their life cycle. Portfolio Risk Fund (PRF) was created by SIDBI with funding support from Government of India and has been operational since March 2004. Normally, the Bank stipulates security requirement of Fixed Deposit Receipts (FDRs) equivalent of up to 10% of the loan sanctioned to MFIs under SFMC dispensation. Once the case is covered under PRF, 75% (i.e.7.5% of the loan amount) is booked under PRF and balance 25% (i.e.2.5% of the loan amount) is furnished by the individual MFI by way of FDRs.

This study takes a look at the impact of the 'Portfolio Risk Fund' on the microfinance sector. The study also looks at whether MFIs were able to raise additional debt funds for on-lending to the ultimate beneficiaries, setting up of new financial intermediaries in the under-served states, and the socio-political impact of the fund on the poor, especially women in the under-served/un-served regions of the country including the changes in their social and economic profiles.

A survey of over 5,500 MFI clients has been targeted under this study. The respondents have been chosen in regions where MFIs are likely to have disbursed loans from funds related to PRF. The survey has been administered through a structured questionnaire.

Key findings of the study are presented below:

Improved outreach and access

SIDBI's lending under PRF constituted a significant source of on-lending funds for a number of MFIs, particularly when they were at an early stage of growth. Some of the MFIs that have been supported under PRF have grown to become very large. This includes Bandhan, the largest MFI in the country.

There is evidence to show that the outstanding loan portfolio of MFIs is correlated with the quantum of loan funds received from SIDBI under the PRF scheme. An increase of Rs 1 million of loan under the PRF scheme is associated with an increase of over Rs 7 million in outstanding loan portfolio. Several MFIs that have been covered under the scheme have been able to expand their operations to other states.

The scheme has also helped SIDBI provide more on-lending funds to greater number of MFIs. In addition, SIDBI's relationship with the MFIs has helped them access on-lending funds from other banks and financial institutions. Most MFIs have been able to secure on-lending funds from diverse sources as they grew.

Supported opening of new financial intermediaries

SIDBI provided loans to 89 MFIs under the PRF scheme. As per the latest information available about these MFIs, 67 (over 75%) of the MFIs have been able to sustain themselves. Among the MFIs supported, the case of Bandhan stands out. It was among the initial MFIs supported under the scheme in 2004. At that point in time it was a start-up organization and SIDBI was its sole lender. It received loan funds under PRF assistance over several years as it scaled up. At present, Bandhan is the largest MFI in the country with presence in several states across India.

We also find that there has been correction in the regional disparity of microfinance over the years PRF has been operational.

This is presented in the table below:

Table 1: Distribution of Microfinance Outreach

Region	2003[1]	2008[2]	2010[3]	2012[4]
South	79.2%	55%	52%	50%
East and NE	7.1%	26%	26%	29%
West	11.3%	11%	10%	7%
North and central	2.4%	8%	12%	14%
Total	**100%**	**100%**	**100%**	**100%**

[1] Source: State of Microfinance in India, prepared for Institute of Microfinance, Frances Sinha (2009)
[2] Source: State of the Sector Report for Microfinance, 2008, Access Development Services
[3] Source: Map of Microfinance distribution in India, IFMR Research, 2010
[4] Source: Microfinance State of the Sector report 2012, Access Development Services

*Percentages in the table represent proportion of population with access to microfinance in the region

However, we find that between Fy08 and Fy09, a significant proportion of the loan funds disbursed under PRF went to MFIs operating in Southern India. A substantial proportion of this fund was utilized by MFIs in south India. Given that southern India did have had significant presence of microfinance in the past, these loans did not help in correction of the regional disparity in microfinance.

Social and Political Impact

The proportion of MFI clients in the North Eastern states has improved from 1% in 2008 to 4% in 2012. This suggests that there has been an improvement in the access of clients in the North Eastern region. An overwhelming proportion of MFI loans have gone to women. However, this is on account of the lending methodology of MFIs that primarily focuses on women. The evidence from our sample suggests that there has been an increase in the proportion of loans going to the SC/ST group after 2011.

Based on the sample surveyed, we find that

- Nearly 90% of the respondents report an improvement in their status within their families as well as within the society. The respondents uniformly (98%) report an improvement in their confidence levels after associating with the MFI.
- While the respondents had varying level of awareness regarding government welfare schemes, it was independent of whether or not; social issues were discussed in the group meetings conducted by MFIs.
- There was marginal improvement in the proportion of clients who said they voted on issues of their own interest now, as compared to before joining the MFI.
- They also reported marginal increase in access to savings services. There was a distinct increase in access to life insurance. However, there was little difference in access to health insurance and pension schemes.
- Less than a quarter of the respondents had access to loans from banks and cooperatives, with access to microfinance making little difference.

- Nearly a third to half of the respondents reported improvement in awareness regarding literacy and education as well as improved ability to read and write after associating with the MFI. Around 40% respondents reported access to better education facilities.

Economic Impact

- 90% of the respondents said that their economic and financial condition has improved after they associated with the MFI.
- Respondents in the sample also reported increase in the sources of income as well as increase in value of business assets in their households.
- There was also an increase in average incomes and savings, adjusted for inflation at 8% annually, reported by the respondents.
- Respondents also reported an improvement in amenities such as toilet facility at home (48% before association with MFI to 61% now), cell phone (67% to 87%), television (57% to 72%) and fridge (18% to 23%).

Thus we find that there is evidence to suggest the following key positive impacts:

- Growth of MFIs and their outreach
- Improved access to funds from other sources
- Favourable impact on socio political and economic status of clients because of increased access to microfinance.

The factors that were found to have influenced the impact of the PRF are:

- Continued support by SIDBI in the form of other funding
- SIDBI's credibility as one of the anchors of the microfinance sector
- MFI specific factors such as:
    - Sound client relationship management
    - Access to risk capital
    - Sound governance and management
    - Risk management.

Recommendations

There is a case to continue the PRF scheme as there is still a regional disparity with the southern states accounting for 50% of the outreach of microfinance. Moreover, while MFIs have been able to attract commercial funds, these have been focused on short term growth and profits. SIDBI has provided stewardship to the sector and encouraged MFIs to diversify to underserved areas. It has also been responsible for initiatives that encourage fair practices by MFIs.

In order to enhance the impact of PRF related lending, we have the following recommendations:

- Establish qualification criteria for MFIs based on their capability to undertake lending.
- Have conditionality regarding limits on portfolio concentration of an eligible MFI
- Decision on MFI's loan proposals should be taken according to established timelines
- Establish clear guidelines regarding lending undertaken by MFIs so that they lend in underserved areas.
- Provide continued support to MFIs.
- Provide countercyclical support to MFIs.
- Monitor performance of MFIs regularly.
- Track the regional concentration of microfinance towards further better targeting of PRF related loans to relatively more underserved geographical pockets.

Chapter 1 : Introduction

This study presents the analysis of the role and impact of Portfolio Risk Fund (PRF) - a funding support from Government of India (GoI) under Small Industries Development Bank of India's (SIDBI) scheme of micro-finance program to enhance micro-finance lending in India. The funding support was operational from March 2004.

PricewaterhouseCoopers Pvt. Ltd. (PwC), in partnership with Prime M2i Consulting Pvt. Ltd. (M2i), has been engaged by SIDBI to study the role and impact of PRF.

This chapter presents a brief overview of the study objectives, the scope & methodology and the report structure.

1.1 Objective of the assignment

The objective of the assignment is to study the impact of "Portfolio Risk Fund" on the Microfinance Sector in India. Specifically, it aims to assess:

- the multiplier effect of the intervention of PRF Fund i.e. whether it has helped Microfinance Institutions (MFIs) to raise additional funds for on lending,
- the changes in the social and economic profiles due to the intervention of PRF Fund,
- the impact of PRF fund in creation of new financial intermediaries in the under-served states, and
- the socio-political impact of the PRF on the poor, especially women.

The study also aims to provide recommendations to improve the effectiveness of the PRF.

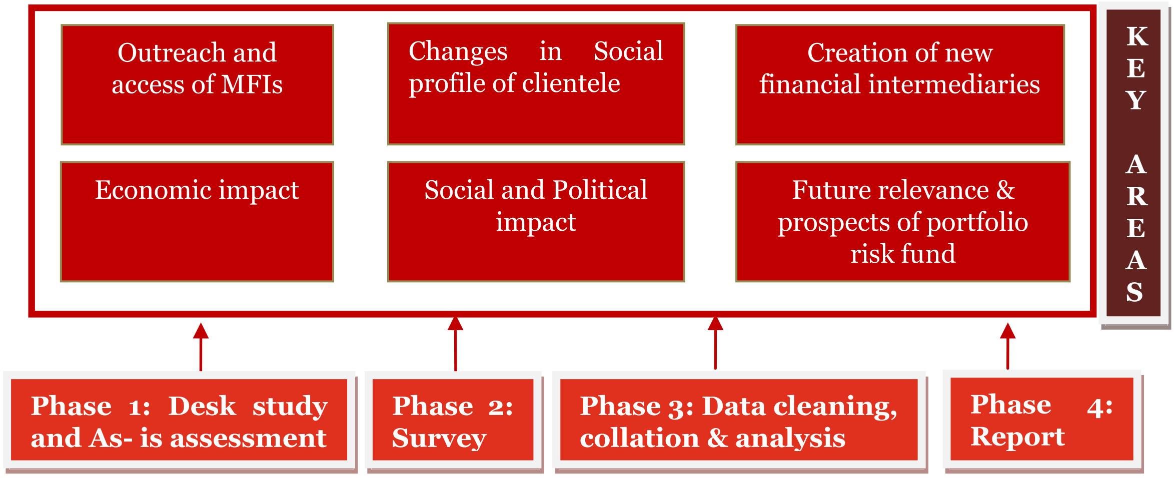
1.2 Brief Approach and Methodology

The study has examined six key areas through three broad phases and activities within each phase as shown in Figure 1. Our evaluation methodology included review of the broad scheme guidelines[5], desk review of annual reports and other public data of MFIs, and survey of 26 MFIs and 5720 clients. Various survey tools such as questionnaires, face to face interviews, telephonic surveys etc were used. Our sampling approach consisted of:

[5] Office Memorandum on "Scheme of Micro Finance Programme" dated 17th March 2004 shared by SIDBI with PwC team

1. ***MFI survey*** undertaken for a sample of 26 MFIs that represent over 80% of the loans given under the PRF programme for this study. The MFIs were selected based on discussions with SIDBI.
2. ***Client survey*** of 5720 clients sampled across states covering clients of all the 26 MFIs. For each MFI, we have randomly sampled 4 branches. In each MFI branch, we randomly selected 50-100 clients for interview.

Figure 1: Our approach



1.3 Limitations of the study

Like every evaluation study, the results of this study are also subject to some limitations. The results presented in this study is bound by constraints relating to attribution of results, coverage of samples, accuracy of client responses and sample as a representation of population. Following are some of the limitations of this study:

1. **Attribution:** The analysis of impact on clients based on our sample reflects the impact on account of their access to microfinance and not specifically access to microfinance under the PRF programme, since MFIs do not distinguish between PRF and non PRF funds while disbursing loans to their clients. However, to the extent MFIs were able to start operations in previously under-served areas because of PRF related funding alongside other enabling factors such as management capacity and access to equity capital, the clients' access to microfinance services can itself be attributed to the PRF program to a significant extent.

2. **Coverage of samples**: Our sample of MFI clients does not include respondents from Andhra Pradesh, a state where MFIs have faced criticism. The sample, however, covers

those clients of MFIs headquartered in AP who operate in other states (Non Andhra clients of Andhra based MFIs which have multi-state presence).

3. **Accuracy of Client Response:** One of the limitations relating to the estimation of economic impact of PRF is the fact that results are self-reported by interviewees and are hence subject to error in terms of their recall and expression of opinions, rather than presenting absolute clarity and accuracy.

4. **Estimation**: Another limitation of this study is that since it is based primarily on survey results, the results are only an estimation of the actual impact.

Chapter 2 : About Portfolio Risk Fund

2.1 Overview

In 2010, 32.5% of the population in India was below the international poverty line[6]. Creation of self employment opportunities for the poor has been considered as one of the crucial poverty eradication measure. Given the financial constraints faced by the poor, it is difficult to finance self employment opportunities. Microfinance Institutions (MFIs) play an important role in providing affordable credit to unbanked people. However, MFIs themselves have been facing financing constraints.

Through Scheme of Micro Credit, Small Industries and Development Bank of India (SIDBI) aimed to provide greater access to finance of MFIs for on-lending to unbanked people. However, to be eligible for the scheme, microfinance institutions are required to deposit 10% of loan sanctioned as Fixed Deposit Receipts (FDRs) security amount. Given the financial condition of MFIs, it becomes difficult to deposit the requisite amount to avail SIDBI finance.

To ameliorate such problems, in 2003-04, Government of India launched a scheme of Micro Finance Programme tying up with the SIDBI Scheme of Micro Credit. Under this programme, through "Portfolio Risk Fund

About the PRF scheme

Planned Benefits: The PRF would be used for meeting the security deposit requirement from the MFIs/NGOs and to meet the cost of interest loss. At present SIDBI takes fixed deposit equal to 10% of the loan amount. For all the loans covered under PRF, however, the MFI would be required to deposit about 2.5% of the loan amount and the balance 7.5% would be adjusted from the funds provided by the GoI. SIDBI will pay interest to the GoI on the fixed deposit at the same rate as allowed to NGOs. In case of non-recovery of loan, SIDBI would first adjust fixed deposit and the subsequent interest accrued for 2.5% security deposit contributed by MFI and then it would adjust the 7.5% fixed deposit and its interest accrued. Moreover, after the full recovery of loan from MFIs/NGOs, the 7.5% security deposit of the loan amount provided by GoI and its interest would be rotated further as security deposit for MFIs/NGOs.

Targeted Coverage: SC, ST, Women, the underserved and unserved areas including North Eastern Region

Operational Strategy: The lending contracts of SIDBI under the PRF scheme are designed on the lines of its other term loan contracts. In the loan sanction letter it is specified that security deposit requirement on the sanctioned amount will be 10% but if the loan amount is covered under the PRF scheme the security deposit amount will be 2.5%.
On the basis of the given sanction, the MFI can request disbursement from SIDBI in several tranches. At the time of disbursement of each tranche SIDBI determines if funding can be covered under PRF. It also discusses with the MFI the conditions of disbursement under the PRF scheme.
Prior to the disbursement, the MFI has to deposit the Fixed Deposit Receipt with SIDBI. After that the requested amount is released to the MFI. Usually within 30 days of release of funds, the MFI has to provide utilisation certificate to SIDBI.

[6] *Source: India – New Global Poverty Estimates, World Bank*

(PRF)", GOI supported MFIs in depositing the requisite FDR amount. Once the case is covered under PRF, out of the 10% security deposit, 7.5% is provided by Government of India and 2.5% is provided by MFIs. The Scheme has been tied up with the existing programme of SIDBI by way of contributing towards security deposits required from the MFIs/NGOs to get loan from SIDBI. The scheme is being operated in underserved States and underserved pockets/districts of other states. This is expected to expand the reach of micro credit scheme run by SIDBI and improve long term sustainability of NGOs / MFIs.

Upto March 2012, 76 MFIs have been disbursed loan of Rs. 1602.67 crore, thereby utilizing an amount of Rs. 120.2 crore from the PRF. This has benefited approximately 69 lakh beneficiaries, mainly women.

As part of its intervention under the PRF scheme, SIDBI disbursed total of Rs. 17.72 billion (Rs 1,772 Crore) to 89 MFIs[7] starting from the financial year 2003-04 and till 2013-14. Table 2 shows the year-wise disbursement of loans under the PRF.

Table 2: Loan Disbursed by SIDBI under PRF

Financial Year	Rs Mn	Number of MFIs	Financial Year	Rs Mn	Number of MFIs
2003-04	16	4	2009-10	5,103	23
2004-05	157	12	2010-11	2,184	13
2005-06	310	20	2011-12	817	6
2006-07	949	26	2012-13	1,540	9
2007-08	5,672	51	2013-14[8]	181	2
2008-09	790	28			
Total				17,718	

Source: PRF loan disbursement data obtained from SIDBI

2.2 MFI and Client Profile

This section presents a brief profile of the sampled MFIs and clients.

2.2.1 MFI profile

We present below a profile of MFIs, for which financial data was available[9]. The loans given by SIDBI under PRF to these MFIs (Rs 14.317 billion) represent 84% of the total lending

[7] During the course of the continuance of the PRF loan scheme, organizational forms of some of the MFIs changed. In such cases, technically, disbursements were made to two different legal forms but we have considered such organizations as one. For example, disbursement of on-lending funds was made to Bandhan Konnagar as well as Bandhan Financial Services Pvt Ltd. For the purpose of this analysis we have considered both these organizations as one. For list of such organizations, please refer 0.

[8] Figures for 2013-14 are up to August 2013.

[9] Financial data was available for 23 of the sampled MFIs

under the scheme until 31 March 2013. These MFIs, taken together, had total outstanding loan portfolio[10] of Rs 161.824 billion as on 31 March 2013. Their cumulative outstanding borrowings[11] were Rs 141.269 billion on the same date. These borrowings comprised 87.3% of the outstanding loan portfolio. As on 31 March 13, these MFIs had received disbursements of Rs 14.317 billion under the PRF scheme since 2003-04. The ratio of the cumulative outstanding borrowings to the total loans disbursed by SIDBI under the PRF scheme was 9.86. In other words, their cumulative outstanding borrowing was nearly 10 times the total loans received by them under the PRF scheme. Table 3 presents the details regarding loan support under PRF scheme by SIDBI as well as the present scale of operations of these MFIs.

Table 3: Details of loans provided under PRF scheme to sample MFIs

S.No	MFI	Year of 1st Disbursement related to PRF	PRF Loan Amount in 1st year (Rs Mn)	Total Loans Disbursed Under PRF (Rs Mn)	Chapter 3 O/S Borrowings 31 Mar 13 (Rs Mn)	O/S Loan Portfolio 31 Mar 13 (Rs Mn)[12]
1.	Bandhan	Mar-04	4.00	5,772.00	43,543.58	44,208.77
2.	SKS	Mar-07	89.70	1,689.70	16,180.00	23,590.05
3.	SKDRDP	Mar-08	300.00	300.00	20,000.67	20,813.92
4.	Share	Mar-08	1,000.00	1,000.00	10,600.34	19,315.03
5.	Equitas	Mar-09	50.00	50.00	9,983.57	11,346.61
6.	Ujjivan	Mar-08	50.00	800.00	9,934.61	11,259.97
7.	Asmitha	Mar-04	59.00	2,631.12	6,795.03	10,710.58
8.	Janalakshmi	Mar-08	75.00	600.00	8,360.59	9,608.26
9.	Satin	Mar-10	120.00	225.00	5,863.81	5,800.26
10.	Cashpor	Mar-05	45.00	275.00	4,026.15	4,683.66
11.	Sonata	Mar-07	10.00	10.00	1,623.96	1,817.93
12.	Madura	Mar-08	200.00	300.00	1,163.73	1,515.56
13.	RGVN	Mar-05	4.50	226.50	1,019.23	1,171.29
14.	Village	Mar-04	1.00	112.00	874.03	1,097.18
15.	Arohan	Mar-10	15.00	105.00	612.98	904.27
16.	Sarla	Mar-07	5.00	65.00	205.35	319.06
17.	Margdarshak	Mar-10	20.00	50.00	143.09	252.03
18.	Arth	Mar-08	15.00	55.00	45.42	118.68
19.	YVU	Mar-06	1.50	11.50	90.45	115.71
20.	Prayas	Mar-10	3.00	3.00	80.52	112.45
21.	Lupin	Mar-06	4.00	12.83	92.40	79.40

[10] Outstanding loan portfolio refers to loans given by MFIs to micro-enterprises.
[11] Outstanding borrowings refer to loans taken by MFIs. It includes loan taken from SIDBI (both PRF and Non PRF) as well as from other sources.
[12] O/S loan portfolio represents the gross loan portfolio including loan portfolio on the books of the MFI as well as managed loan portfolio. Of the MFIs presented in the table, Asmitha and Share are under corporate debt restructuring.

S.No	MFI	Year of 1st Disbursement related to PRF	PRF Loan Amount in 1st year (Rs Mn)	Total Loans Disbursed Under PRF (Rs Mn)	Chapter 3 O/S Borrowings 31 Mar 13 (Rs Mn)	O/S Loan Portfolio 31 Mar 13 (Rs Mn)[12]
22.	Mahashakti	Mar-08	1.50	21.50	33.72	46.44
23.	BMVS	Mar-10	2.00	2.00	10.65	10.05

Source: Compiled from data from SIDBI and data from www.mixmarket.org
** Data of YVU and Lupin has been taken from the primary survey*

The analysis presented in this section is based on the following indicators:

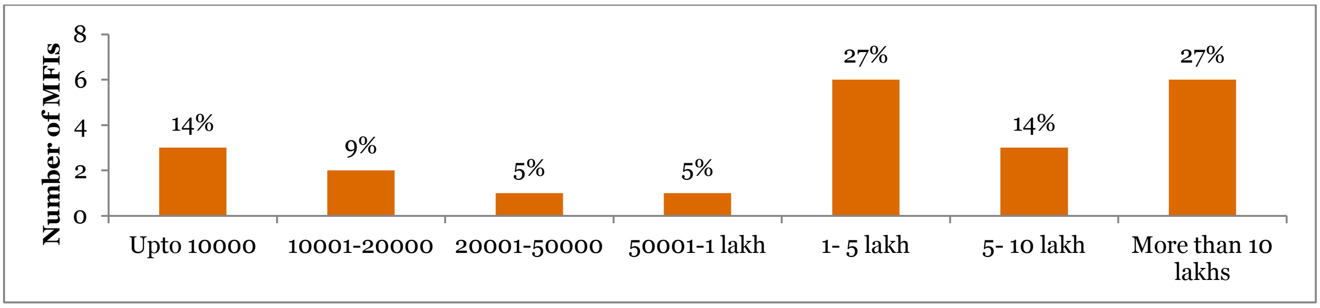
Category of Indicators	Indicators used
Outreach	• Number of active borrowers • Gross loan portfolio, unadjusted • Percentage of women borrowers • Average loan balance per borrower
Financial Performance	• Return on Assets • Return on Equity • Operational Self sufficiency
Financial Structure	• Debt to equity ratio

It is to be noted that all indicators related to outreach, financial performance and financial structure have been extracted from http://www.mixmarket.org. *All data relates to FY 12 except for YVU Financial Services Pvt. Ltd. for which the latest available data relates to FY 11.*

Outreach of sample MFIs

1. Number of active borrowers

Figure 2: Frequency Distribution of number of active borrowers for sample MFIs

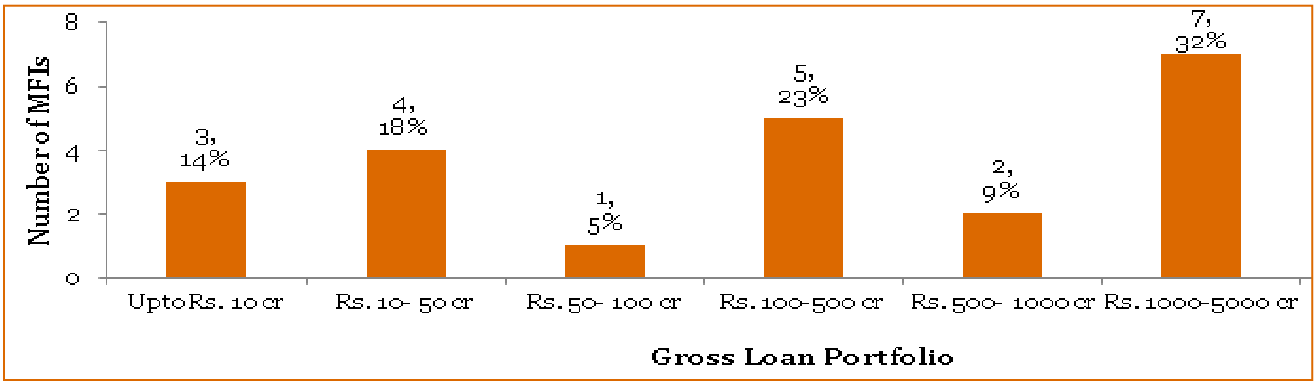


Number of Active borrowers refers to the number of individuals or entities who currently have an outstanding loan balance with the MFI or are primarily responsible for repaying any portion of the Gross Loan Portfolio. Individuals who have multiple loans with an MFI are counted as a single borrower. Larger the number of active borrowers, larger the reach of the MFIs. As depicted by Figure 2, 68% of the MFIs surveyed have more than 1 lakh active borrowers with majority of them having either between 1-5 lakh or more than 10 lakh borrowers.

2. Gross loan portfolio

Gross Loan Portfolio (GLP) refers to all outstanding principals due for all outstanding client loans. This includes current, delinquent, and renegotiated loans, but not loans that have been written off. It does not include interest receivable. Like the number of active borrowers, gross loan portfolio of the MFIs is also an important indicator of the outreach of the MFIs. It may be noted that larger the GLP, larger is the outreach. As can be seen from Figure 3, majority of the sample MFIs have GLP ranging from Rs. 1000 Crore to Rs. 5000 Crore.

Figure 3: Frequency Distribution of Gross Loan Portfolio for sample MFIs



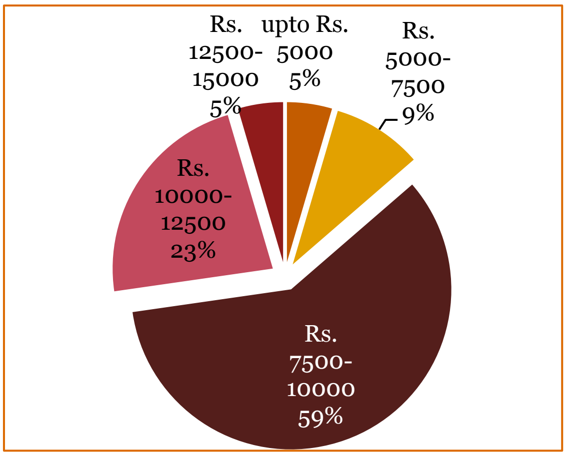
3. Percentage of women borrowers

Table 4: Percentage of female borrowers

Descriptive Stats- Proportion of female borrowers			
Mean	0.9675	**Minimum**	0.6161
Median	1	**Maximum**	1
Mode	1	**Count**	22

Table 4 shows that the percentage of female borrowers varied from 61% for to 100%. Majority of the sample MFIs (70%) lend only to women with another 30% MFIs having more than 90% female clients. SKDRDP has about 61% female borrowers. On average, about 97% of the clients of these 22 MFIs are females.

Figure 4: Average Loan balance per



4. Average loan balance per borrower

Average loan balance per borrower can be defined as the ratio of gross loan portfolio and number of active borrowers. While both the gross loan portfolio and number of active borrowers indicate the outreach of MFIs, their ratio indicates the average loan size which is a proxy measure of the socio-economic level of the borrowers. Lower the average loan balance, higher the reach of MFIs to lower income groups.

Close to 82% of the MFIs have an average loan size in the range of Rs. 7500 to Rs. 12500. While the average loan balance per borrower ranges from Rs. 7500 to Rs. 10000 for majority of the MFIs, the average of average loan balance per borrower for these 22 MFIs stood at Rs. 8932. (http://www.mixmarket.org).

Financial Performance of sample MFIs

Table 5: Return on Assets of sample MFIs

Return on assets	Frequency (%)
Less than 0	18%
0- 0.01	18%
0.01- 0.02	23%
0.02- 0.03	9%
0.03- 0.05	27%
0.05- 0.1	5%

1. Return on Assets

Return on assets (RoA) can be defined as the ratio net operating income (net of taxes) to assets. RoA indicates how the MFI is performing relative to all assets. The term "Assets" denotes both productive assets such as their investments (i.e. loans given to clients) and the non productive assets such as fixed assets or land and property.

Majority of the MFIs get a return of 3% to 5% from assets. 4 MFIs, namely, Arohan, Asmitha, Share and SKS have negative return on assets indicating that they are incurring losses.

2. Return on Equity

Table 6: Return on Equity of sample MFIs

Return on equity	Frequency (%)
Less than 0	18%
0- 0.01	0%
0.01- 0.05	32%
0.05- 0.1	9%
0.1- 0.2	9%
0.2- 0.5	27%
0.5- 1	5%
More than 1	0%

Return on equity (RoE) is defined as ratio of net operating income (net of taxes) to average total equity. The RoE provides information on how much net income was earned on the equity of a Microfinance Institution (MFI). RoE reflects how much the MFI has earned on the funds invested by the shareholders/donors. It differs from the return on assets ratio in that; it measures the return on funds that are owned by the MFI (rather than total assets, which by definition includes both liabilities and equity). RoE is an indicator of the profitability of the MFIs.

While majority of the sample MFIs earn about 1% to 5% return on equity, about 18% of the MFI have negative RoE indicating that they have incurred losses.

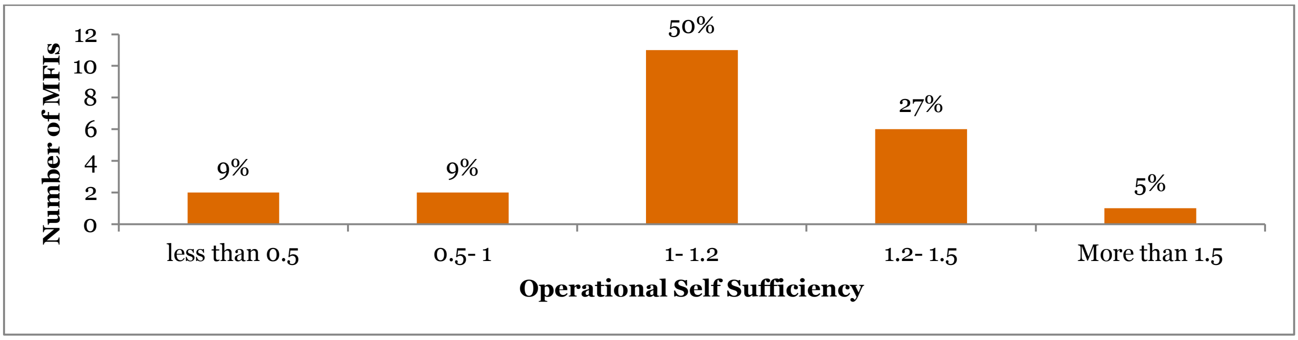
3. Operational Self sufficiency

Operational Self sufficiency (OSS) is given by:

OSS = Financial revenue/ (financial expense + net loan loss provision expense + operating expense)

In simple words, OSS is defined as the ratio of the total income to total expense. If the ratio is more than 100%, then the MFI is earning profit from its operations. Close to 82% of the sample MFIs have more than 100% OSS. While majority of the sample MFIs have operational self sufficiency of more than 1, 5% of the sample MFIs are not operationally self sufficient indicating that they are incurring operational losses.

Figure 5: Frequency Distribution of OSS of sample MFIs



Financial Structure of sample MFIs

Table 7: Debt to equity ratio of sample MFIs

DER	Frequency	Percentage
less than 0	2	9.09%
0-1	1	4.55%
1-5	14	63.64%
5-10	3	13.64%
More than 10	2	9.09%

Debt to Equity Ratio

Debt to equity ratio (DER) is the ratio of total liabilities to equity. It represents the capital structure of the MFI. 65% of the sample MFIs have DER in the range of 1 to 5 with another 25% having DER of more than 5.

3.1.1 Client Profile

A survey of 5,720 MFI clients has been carried out. The sampling was performed with the help of the following MFIs:

Table 8: Number of Respondents

S No.	MFI	Respondents	S No.	MFI	Respondents
1.	ASA Microfinance Pvt Ltd	227	2.	Prayas	209
3.	Asmitha Microfin Ltd	166	4.	RGVN (NE) MFL	218
5.	Arohan Financial Services Pvt Ltd	40	6.	SKDRDP	207
7.	Arth Microfinance Pvt Ltd	122	8.	SKS Microfinance Ltd	401
9.	Bal Mahila Vikas Samiti	120	10.	Share Microfin Ltd	107
11.	BWDA Finance Ltd	151	12.	Sanghamithra Rural Financial Service	211
12.	Cashpor Micro Credit	434	14.	Sarala Women Welfare Society	99
13.	Equitas Micro Finance Pvt Ltd	331	16.	Satin Creditcare Ltd	649
15.	Future Financial Services Ltd	151	18.	Sonata Finance Pvt Ltd	226
17.	Lupin Foundation	103	20.	Suryodaya Micro Finance Pvt Ltd	210
19.	Mahashakti Foundation	160	22.	Ujjivan Financial Services Pvt Ltd	648
21.	Madura Microfinance	150	24.	Village Financial Services Pvt Ltd	209
23.	Margdarshak Financial Services	119	26.	YVU Financial Services Pvt Ltd	52
Total					**5,720**

This section presents a brief profile of the clients surveyed.

Sample characteristics

Table 9: Regional Distribution of Survey Respondents

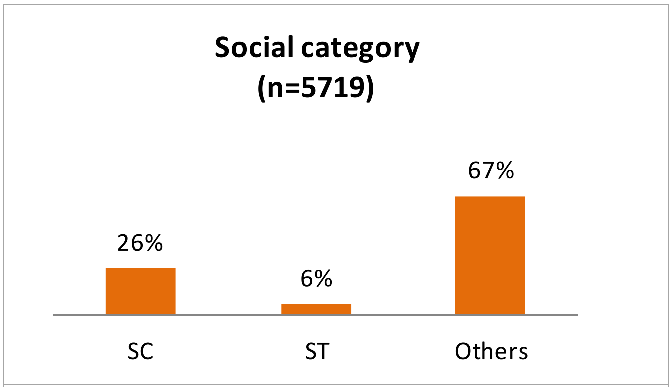
Region	Frequency	Percentage
East	1,763	31%
North East	270	5%
North	1,508	26%
Central	665	12%
West	644	11%
South	870	15%
Total	**5,720**	**100%**

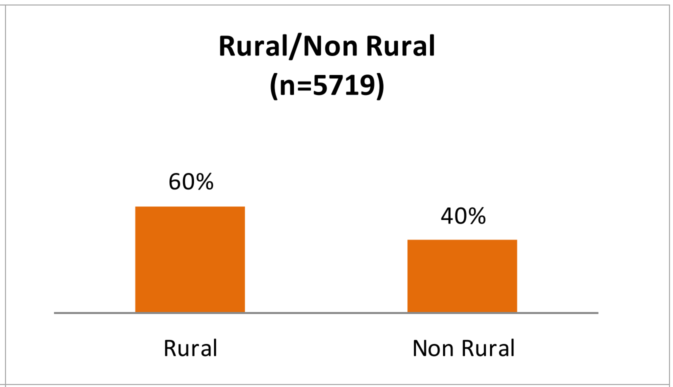
Regional distribution

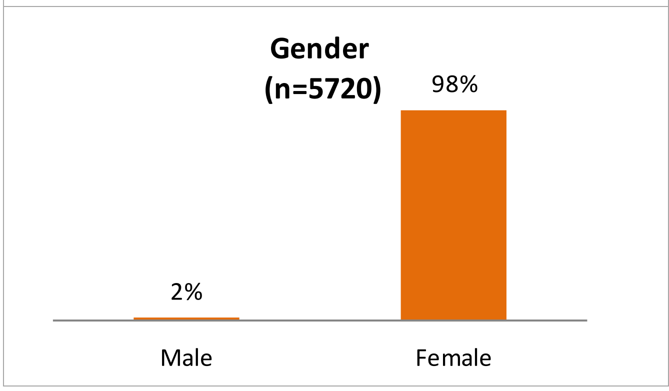
Table 9 shows the regional distribution of respondents in the sample.

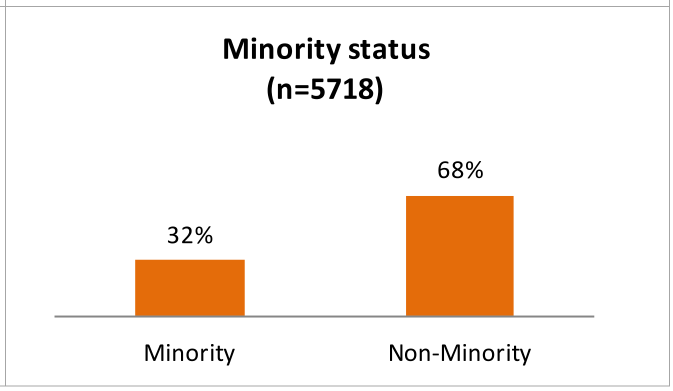
Demographic characteristics

26% belonged to Scheduled castes while 6% belonged to Scheduled tribes. 60% of the respondents belonged to rural areas while remaining 40% belonged to non rural areas. 98% of the respondents were women. 32% of the respondents were from minority community.

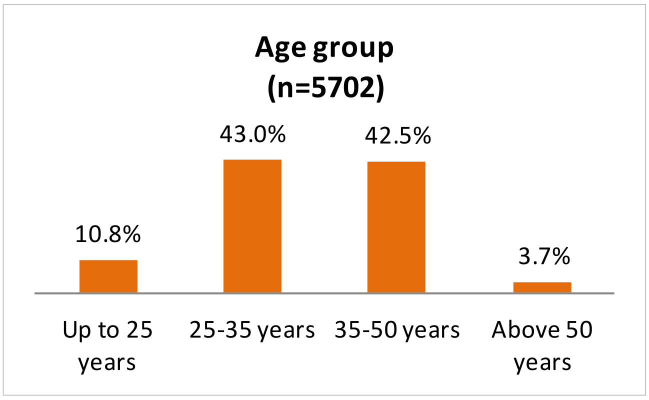






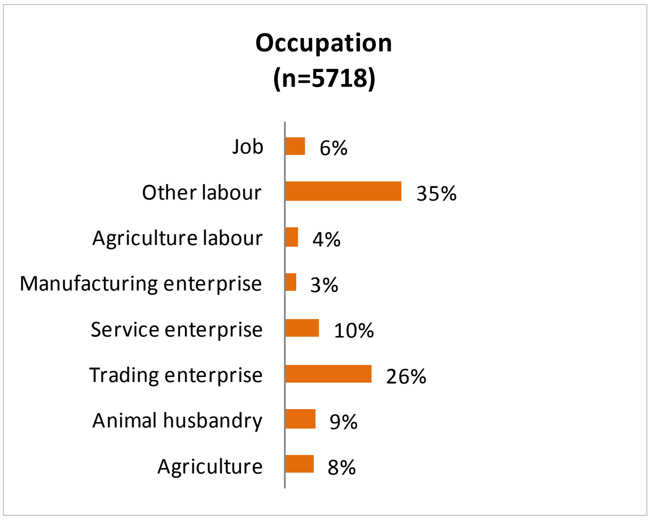


43% respondents belonged to 25-35 years age group while 10% respondents were up to 25 years of age. 43% of the respondents were between 35-50 years old, while 4% of the respondents were over 50 years of age.



Occupation

While 39% reported labour (agriculture and non agriculture) as their primary occupation, 26% of respondents reported trading and service enterprise as their primary occupation.



Access to identification documentation/ entitlement cards

48% respondents had Below Poverty Line Card, 94% had Voter Identity card, and 57% had Aaadhar card.

Chapter 4 : Assessing the Impact & Outreach

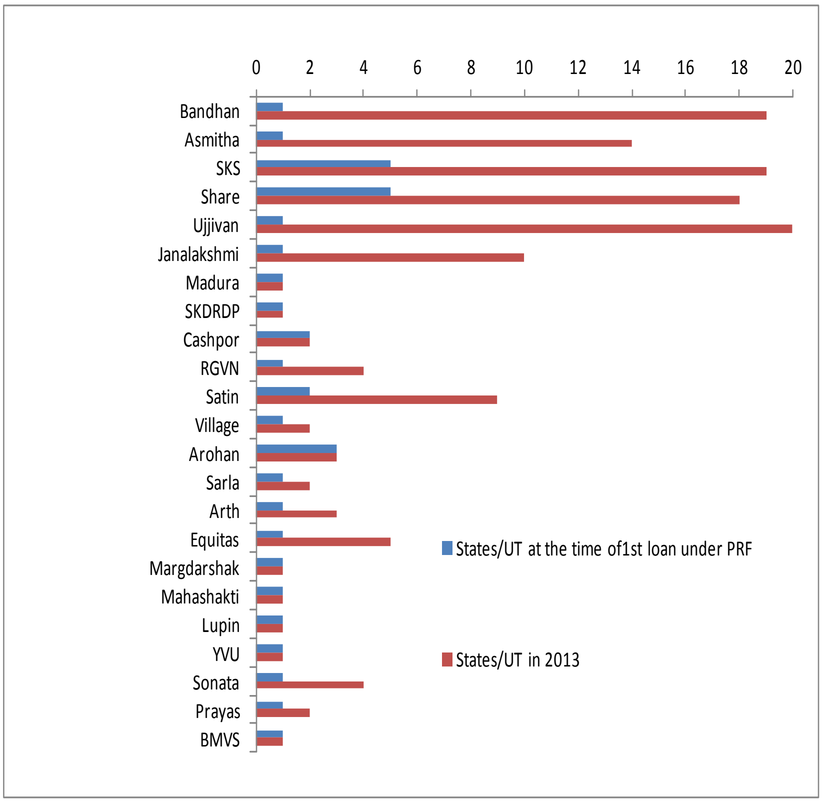
This chapter presents our assessment of the impact of PRF funding on the operations of MFIs. It specifically aims to present an analysis of the impact of PRF funding on the geographical presence of MFIs, their operating scale (measured by outstanding loan portfolio), their ability to raise loans from other sources and the multiplier effect.

Geographical Expansion

Figure 6 compares the number of states that MFIs were operational during the year they received loan from SIDBI under PRF for the first time with the number of states they were present in at the end of Fy13.

The figure shows that some MFIs that received funds under the PRF scheme have been able to expand their operations to other states. This includes Bandhan, Ujjivan, Janlakshmi, Equitas, SKS, Share and Asmitha. Of these MFIs, the first four as well as Asmitha received loans under the PRF scheme when they were in the initial stages of their growth. SKS and Share were established MFIs with portfolio largely concentrated in Andhra Pradesh when they received loans under the PRF scheme. These MFIs expanded into other states after receiving loans under PRF.

Figure 6: Geographical Presence of sample MFIs



4.1 Relationship between PRF Loans & MFI's Operating Scale

We have performed a regression to analyze the relationship between the total amount of funding support under PRF to MFIs and their outstanding loan portfolio as on 31 March

2013. The results indicate a strong correlation between the two variables. The adjusted R square for the model is 0.71. Nearly 71% of the variance in the outstanding loan portfolio of the MFIs is explained by the cumulative funding support provided under PRF. Further, an increase of Rs 1 million of loan under the PRF scheme is associated with an increase of over Rs 7 million in outstanding loan portfolio, with the 95% confidence interval.

The regression model utilizes the following variables:

- *Dependent Variable (Y) = Total loan portfolio outstanding of the MFI as on 31 March 2013*
- *Independent Variable (X) = Cumulative funding support provided to the MFI under PRF.*

The results of this regression analysis are as follows:

				Observations	23	
				P Value: P (>F) *	0.0000	
				R squared	0.7238	
				Adjusted R Squared	0.7106	
				Root MSE	5852.08	
Variable Y	Coefficient	Standard Error	T	P value: P|t|*	95% confidence interval	
X	7.179004	.9677861	7.42	0	5.166382	9.191625
Constant	2873.863	1361.029	2.11	0.047	43.44746	5704.278

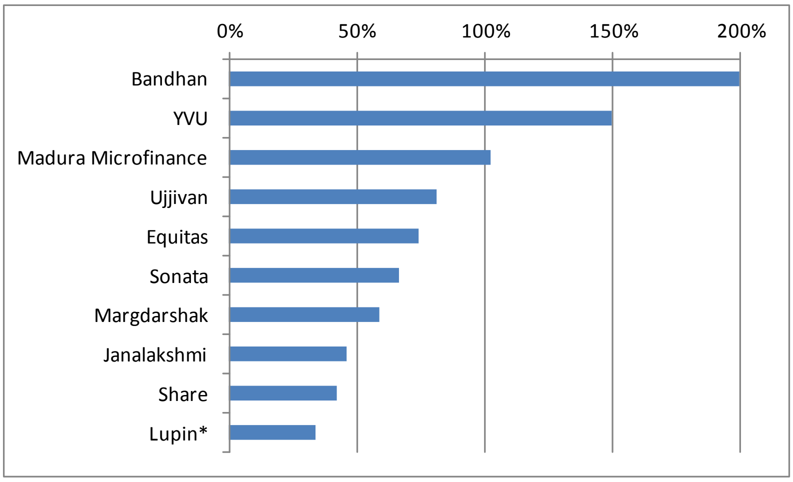
*P values suggest that the coefficient of the independent variable and the model are both statistically significant.

4.2 Importance of First Loans to MFIs under PRF

We now examine how important loans under PRF were in the evolution of the MFIs. In this context the first loans given under the scheme to the MFIs is of particular interest. While, the MFIs received loans from SIDBI under the PRF scheme through the period starting FY 2003-04, the first loan under the scheme was received by different MFIs at different points in time. For example, Bandhan received loans for the first time in FY 03-04, while Equitas received loans for the first time in FY 08-09.

In order to assess the importance of the first loans extended by SIDBI to the different MFIs under the scheme, we analyze the ratio of the loans extended by SIDBI during the first Financial Year of lending to an MFI to the outstanding borrowings on that MFI's balance sheet at the start of the Financial Year. We call this ratio the First Year Intensity (FYI) ratio. Figure 7 the MFIs with the largest ten FYI ratios.

Figure 7: Top 10 MFIs by FYI ratio



At 200%, Bandhan has the highest FYI ratio, given that it received Rs 4 million in loans under the PRF scheme during FY 03-04, and its outstanding borrowings as on 31 March 2003 were Rs 2 million. In other words, it shows that Bandhan received two times of the opening outstanding borrowings as loans under the PRF scheme during FY 03-04.

YVU, which received Rs 1.5 million in FY 05-06 had an outstanding borrowing of Rs 1 million as on 31 March 2005. Thus its FYI ratio is 150%. It is worthwhile to note that Bandhan is the largest MFIs in the country with over Rs 35 billion in outstanding loan portfolio on 31 March 2013. Also, Ujjivan and Equitas, which have FYI ratios of over 75%, are very large MFIs with outstanding loan portfolio of over Rs 11 billion each on 31 March 2013.

Relationship between First Year Intensity Ratio and Growth Rates of MFIs

We have analyzed the role of SIDBI's Portfolio Risk Fund in the growth of the supported MFIs by performing regression of Compounded Annual Growth Rate (CAGR) of the MFI's loan portfolio with FYI ratio. The adjusted R square for this model was 0.2593. It can be interpreted that nearly 26% of the variance in CAGR of the MFIs can be explained by the ratio of loan under PRF to the outstanding at the beginning of the year in which the loan was disbursed (FYI ratio). The regression results also indicate that 1% increase in FYI ratio is associated with over 0.5% increase in CAGR, at 95% confidence level. Low adjusted R square (26%) indicates that apart from the PRF funding, there may be several other factors which may have also helped in the growth of MFIs in their initial stages.

For this regression we have,

- *Dependent Variable (Y) = Compounded Annual Growth Rate (CAGR) of the MFI's outstanding loan portfolio after the year in which the loan was disbursed.*
- *Independent Variable (X) = Proportion of PRF funds disbursement to the loans outstanding at the beginning of the year in which the loan was disbursed.*

The results of this regression analysis are presented below.

				Observations	23	
				P (>F)	0.0076*	
				R squared	0.293	
				Adjusted R Squared	0.2593	
				Root MSE	0.3997	
Variable Y	Coefficient	Standard Error	T	P|t|*	95% confidence interval	
X	0.5083954	.1723419	2.95	0.008	0.1499909	0.8668
Constant	0.3467939	.1149737	3.02	0.007	0.1076931	0.585895

*P values suggest that the coefficient of the independent variable and the model are both statistically significant

In the regression model above, for three organizations covered in the sample (Arth, Asmitha and Lupin), opening portfolio outstanding data for the year in which the PRF loan disbursement was made for the first time is not available. We have used approximation to estimate opening loan outstanding for these organizations. The results of regression where data for these three MFIs are excluded are presented in the table below.

				Observations	20	
				P (>F)	0.0217	
				R squared	0.2597	
				Adjusted R Squared	0.2185	
				Root MSE	.42647	
Variable Y	Coefficient	Standard Error	T	P|t|		
X	.4718032	.1877738	2.51	0.022	.0773052	.8663012
Constant	.3962215	.1332314	2.97	0.008	.1163127	.6761303

The analysis suggests that the results are still significant at 95% level of confidence.

4.3 Increased Access to Funds

One of the purposes of PRF funding was to enhance the credibility of MFIs so as to enable them to raise additional loans from other sources. In order to analyse the impact of PRF lending on the ability of MFIs to raise funds, we have held discussions with officials of 6 commercial banks to get their views on how SIDBI's relationship with an MFI influenced their own decisions to lend to the MFI[13].

Perception of Bankers

For the commercial banks, SIDBI's exposure to the MFIs is an important factor in deciding on loan applications from the MFIs. SIDBI's exposure adds a degree of comfort to these banks mainly because of their perception that SIDBI undertakes thorough and rigorous due diligence before lending and also invests in the capacity building of the MFIs. Lending institutions and financial intermediaries also acknowledge the role of SIDBI in growth of many MFIs. According to them for most large MFIs in India debt, equity and grants provided to these MFIs by SIDBI at critical junctures proved vital to their growth.

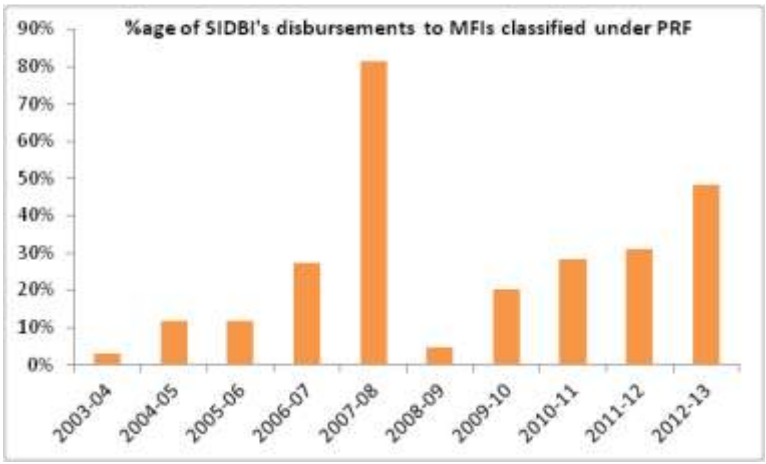
Commercial banks also look forward to SIDBI to perform the role of an anchor for the institutions lending to MFIs. SIDBI has played an important role in convening lenders' forum to discuss issues, develop common reporting formats and common lending covenants. SIDBI has also played an important role in promoting Code of Conduct Assessments, Loan Portfolio Audits and rating of MFIs which are considered important in the decision-making framework of the lending institutions. Discussion also revealed that bankers perceive that SIDBI had an important role in promoting MFIs particularly in the new areas.

This establishes that having a relationship with SIDBI helped MFIs in getting loans from other sources. We now assess how assistance under PRF helped SIDBI itself, to provide more on-lending funds to the MFIs by lowering the security deposit requirement from the MFIs. This is important because many MFIs in their early stages had a scarcity of capital, and had limited capacity to provide funds for security deposits.

[13] The list of bankers and representatives of financial institutions interviewed is presented in Annex 3.

4.4 Additional lending by SIDBI on account of availability of Portfolio Risk Fund

From 2003-04 to 2012-13, PRF related lendings cumulatively represent 25% of total lendings made by SIDBI to MFIs. The following chart presents the percentage of loan disbursements by SIDBI to MFIs classified under the PRF scheme over the years.



The illustration above shows that PRF related loans have constituted over 20% of SIDBI's loans to MFIs in six of the ten years. In Fy08, PRF related loans constituted over 80% of the disbursements, while in Fy13, these accounted for nearly 50% of the disbursements.

Availability of Portfolio Risk Fund allowed SIDBI to lend to the MFIs with a security deposit of 2.5% instead of 10% as required under normal conditions. If PRF was not available, SIDBI would have potentially been able to lend a smaller amount. This is shown in Table 10.

Table 10: Additional Lending enabled by SIDBI

Description	Rs. Million
Total lending done with 2.5% security deposit (A)	17,718
Total lending possible with 10% security deposit (B)*	4,430
Additional lending which SIDBI was able to do (A-B)	13,289

* - Unless covered under the PRF scheme (or some similar scheme), microfinance institutions are required to deposit 10% of loan sanctioned as Fixed Deposit Receipts (FDRs) security amount

Thus, SIDBI was able to lend additional over Rs 13,200 million to the MFI for on-lending to their clients.

Multiplier Impact of Total Loans under PRF

We now analyze the ratio of the outstanding borrowings on the MFI's balance sheet as on 31 March 2013 to the total loans received by them under the PRF scheme to assess the multiplier impact of loans under the PRF scheme. As on 31 March 13, the MFIs in our sample had received disbursements of Rs 14.317 billion under the PRF scheme since 2003-04. The ratio of the cumulative outstanding borrowings to the total loans disbursed by

SIDBI under the PRF scheme was 9.86. This multiplier ratio for the MFIs is depicted in Table 11.

Equitas which had outstanding borrowings of Rs 9.98 billion on 31 March 13 while it had received Rs 50 million cumulatively in loans from SIDBI under the scheme, had a multiplier of over 199 (Refer Table 11). Bandhan had an outstanding borrowing of Rs 43 billion on 31 March 13, while it had received Rs 5 billion in cumulative loan disbursements starting from Fy 03-04 until Fy 12-13. Thus it had a multiplier ratio of 7.5. It can be inferred from the table that relative to the loans received under the PRF scheme 19 of the MFIs had an outstanding borrowing of over three times the former.

Table 11: Multiplier effect of PRF funding on sample MFIs

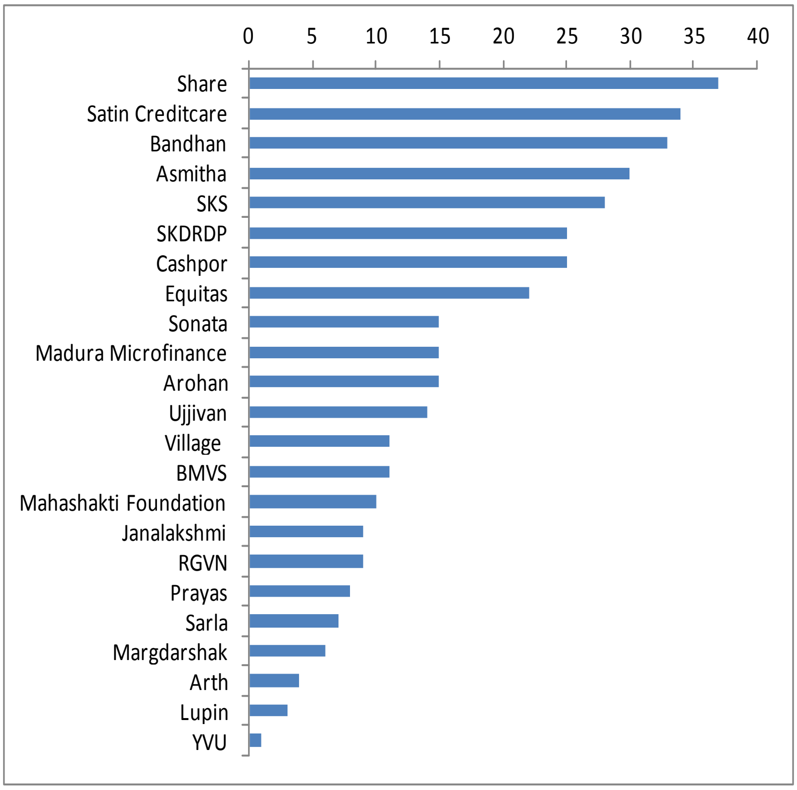
S.No	MFI	Multiplier	S.No	MFI	Multiplier
1.	Equitas	199.7	2.	BMVS	7.7
3.	Sonata	162.4	4.	Bandhan	7.5
5.	SKDRDP	66.7	6.	Lupin	7.2
7.	Satin Creditcare	26.1	8.	Arohan	5.8
9.	Prayas	20.9	10.	RGVN	4.5
11.	Cashpor	14.6	12.	Madura Microfinance	3.9
13.	Janalakshmi	13.9	14.	Sarla	3.2
15.	Ujjivan	12.4	16.	Margdarshak	2.9
17.	Share	10.6	18.	Asmitha	2.6
19.	SKS	9.6	20.	Mahashakti Foundation	1.5
21.	YVU	7.9	22.	Arth	0.8
23.	Village	7.8			

Number of lenders to MFIs at the end of FY 13

Figure 8 presents the number of lenders these MFIs had relationship with at the end of Fy13.

With the exception of YVU, Lupin, and Arth every MFI had borrowing relationship with over five institutional lenders.

Figure 8: Number of lenders for sample MFIs



Conclusion

From the analysis presented above, we can draw the following conclusions:

- For the MFIs covered under the PRF scheme taken as a whole, sum total of the outstanding borrowings at the end of Fy13 is nearly 10 times the total loans disbursed to the MFIs under the PRF scheme.
- SIDBI's lending under PRF constituted a significant source of on-lending funds for a number of MFIs, particularly when they were at an early stage of growth. Some of the largest MFIs, including Bandhan, have been recipient of this support, when they were during the start-up stage of their lifecycles.
- There is strong statistical evidence to show that the outstanding loan portfolio of MFIs is correlated with the quantum of loan funds received from SIDBI under the PRF scheme.
- The PRF scheme has helped SIDBI provide more on-lending funds to greater number of MFIs. SIDBI's relationship with the MFIs has helped them access on-lending funds from other banks and financial institutions.
- SIDBI's loans under PRF were among the first loans received by severalMFIs, including the largest ones, such as Bandhan, Equitas and Ujjivan.These MFIs have subsequently been able to secure loan funds from diverse sources.

To complement the analysis done in this chapter, we have also prepared short caselets for 15 sample MFIs. These caselets have been presented in Annex 8. A detailed case study on Bandhan is presented in Annex 9.

Chapter 5 : Assessing impacts related to new financial institutions

This chapter presents the impact of PRF funding on expansion of MFIs. It specifically aims to assess the impact of PRF funding in setting up of new financial intermediaries in underserved areas.

5.1 Present Status of MFIs covered under PRF

SIDBI provided loans to 89 MFIs under the PRF scheme. As per the latest information available about these MFIs, 67 (over 75%) of the MFIs have been able to sustain themselves. Significantly, 26 of the supported MFIs have client base of 50,000 or more. These MFIs continue to improve their outreach. Given that the focus of most of the MFIs is to increase their geographical diversification, it is expected that regional diversity will further improve.

Current state of MFI to whom assistance under PRF scheme was provided is shown in Table 12.

Table 12: Number of clients of PRF supported MFIs

Client outreach[14]	Number of MFIs	%
Very small operations/ceased operations[15]	22	24.7%
Up to 5,000	12	13.5%
5,000-10,000	10	11.2%
10,000-20,000	8	9.0%
20,000-50,000	11	12.4%
50,000 -100000	8	9.0%
100,000-500,000	10	11.2%
>500,000	8	9.0%
Total	89	100.0%

Sustainability of MFIs in our sample

The table below presents the operational self sufficiency (OSS) ratio of the MFIs in our sample. OSS is defined as the ratio of the total income to total expense. A ratio value of 100% or more suggests that the MFI is able to cover its costs, while a value of less than 100% suggests that the total income is not sufficient to meet the total costs of the MFI.

[14] For most of the MFIs, classification is based on data obtained for March 2013 or September 2013.
[15] For most MFIs under this category, reliable data for a period after March 2010 is not available. We assume that such organizations have either ceased operations or have small operations

Table 13: OSS ratio of sample MFIs

No.	MFI	OSS 2011	OSS 2012	OSS 2013
1	Bandhan	156.52%	162.68%	151.02%
2	Equitas	126.50%	117.23%	122.10%
3	SKS	115.80%	26.30%	54.24%
4	Janalakshmi	95.63%	101.75%	112.94%
5	Village Financial Services	140.20%	116.06%	105.82%
6	Madura Microfinance	138.57%	112.10%	133.17%
7	Prayas	Not Available	146.74%	114.77%
8	RGVN	118.43%	126.32%	129.59%
9	Sonata	138.16%	128.20%	115.75%
10	Arohan	101.79%	54.11%	99.21%
11	YVU	109.37%	107.71%	100%
12	Share	103.27%	43.39%	21.64%
13	Satin Creditcare	106.13%	103.90%	106.01%
14	Cashpor	111.26%	111.94%	119.66%
15	SKDRDP	111.59%	111.97%	120.48%
16	Ujjivan	113.01%	101.42%	126.61%
17	Asmitha	107.99%	42.07%	18.88%
18	Bal Mahila Vikas Samity	100%	100%	100%
19	Mahashakti Foundation	99.15%	95.22%	104.02%
20	Sarla	153.57%	151.75%	144.42%
21	Arth	Not Available	106.29%	111.41%
22	Lupin	100%	100%	100%
23	Margdarshak	5.1.1	107.68%	108.34%

Source: www.mixmarket.org

Table 13 shows that most MFIs have been able to recover their costs with their incomes. However, MFIs that had significant exposure in Andhra Pradesh, including SKS, Share and Asmitha had OSS ratios below 100% in FY 12 and FY 13. Arohan, with its operations largely in West Bengal also reported OSS ratio of less than 100% in FY 12 and FY 13.

5.2 Assessing the role of PRF in reducing regional disparity

In its initial year of its growth, microfinance was concentrated primarily in Southern India (consisting of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala). Prior to 2003-04, most of the prominent MFIs had presence in one or two states of southern India. Table 14 shows the region wise distribution of microfinance clients in India in 2003. It can be seen from Table 14 that South India accounted for about 80% of the clients in 2003. Most of the MFIs in other regions of India were very small.

Table 14: Distribution of Microfinance in 2003

Region	Percentage
South	79.2%
East and NE	7.1%
West	11.3%
North	2.4%
Total	100%

Source: State of Microfinance in India, prepared for Institute of Microfinance, Frances Sinha (2009)

Table 15: Distribution of PRF funds disbursement (2003-04 to 2013-14)

Region	Percentage share
South[16]	10.0%
East and NE	54.6%
West	2.2%
North and central	6.5%
Multiple regions[17]	26.7%
Total	100%

Source: Compiled from PRF loan disbursement data obtained from SIDBI

Between the FY 2003-04 and FY 2013-14, loans under Portfolio Risk Fund were disbursed primarily to the MFIs for on-lending in underserved states. This is shown by the region-wise disbursement of the loans covered under PRF indicated in
Table 15.

It can be seen that while in 2003, most of the MFIs were operating in Southern India, 54.6% of loans under Portfolio Risk Fund were disbursed to MFIs for increasing outreach in East and North East Regions. This clearly shows the focus of SIDBI to grow its portfolio in underserved states. Significantly, 26.7% of loans were disbursed to the MFIs having operations in multiple states. Almost all these MFIs were originally based in South India but gradually expanded their operations to other parts of the country.

It can be argued that focus of SIDBI in undeserved states was an important factor in growth of MFIs based in these states. Success of MFIs in these states further led to many other MFIs based in Southern India to expand operations in other regions. Thus while prior to 2003-04, most of the MFIs had their operations concentrated in one or two states, from the year 2006-07 onwards MFIs started expanding to other states. Although South India still accounts for about 50% of Microfinance clients, the regional disparity has gradually decreased as shown in Table 16.

[16] Regional categories have been specified by PwC and M2i on the basis data shared by SIDBI. For details of states in various regions please see Annex 4
[17] Loans disbursed by Share, Asmitha, SKS, Ujjivan and Janalakshmi have been classified as disbursement in multiple regions as these MFIs have presence in many regions. Such classification has been done only when data for funds disbursement in specific regions in not available. Most of the MFIs to whom on-lending funds under Portfolio Risk Fund were provided operate in a single region

Table 16: Distribution of Microfinance Outreach

Region	2003[18]	2008 [19]	2010 [20]	2012 [21]
South	79.2%	55%	52%	50%
East and NE	7.1%	26%	26%	29%
East	Not available	25%	23%	25%
North East	Not available	1%	3%	4%
West	11.3%	11%	10%	7%
North and central	2.4%	8%	12%	14%
Total	100%	100%	100%	100%

The analysis of period-wise and region-wise disbursement of loans under PRF from the Financial Year 2004 to the Financial Year 2013-14 is presented in Table 17. It may be observed that between the FY 04 and FY 06, 80% of total disbursements under PRF were meant for on-lending in East and North-East regions which had low microfinance outreach.

Table 17: Trend in PRF loan funds disbursement

Regions	FY04 - FY06	FY07-FY09	FY10-FY12	FY13-FY14 [22]
East and North East	80.1%	26.1%	88.8%	9.6%
North and central	16.0%	5.1%	3.4%	24.7%
South	0.0%	22.5%	0.0%	5.8%
West	3.9%	1.5%	3.1%	0.0%
Multiple states	0.0%	44.8%	4.6%	59.9%
Total	100%	100%	100%	100%

Source: Compiled from PRF disbursement data obtained from SIDBI

For the period between FY 2007 and FY 2009, however, 22.5% of total funds were disbursed to MFIs whose operations were limited to Southern India. Further, 44.8% of loans were disbursed to the MFIs having operations in multiple states including states in Southern India. The loan agreements of SIDBI with the MFIs, during that time did not specify the states where the loans associated should be disbursed, and therefore the MFIs operating in multiple states also disbursed on-lending funds associated with the PRF to southern Indian states. Thus, it can be observed that during the period between FY 2007 and FY 2009 focus on ensuring disbursements to underserved states was diluted.

In the later years, however, the focus to under-served areas resumed with over 88% of the total on-lending funds going for disbursement in East and North East regions. For MFIs having operations in multiple states, it was also clearly specified that the on-lending funds to be provided to such MFIs were to be disbursed in underserved states.

[18] Source: State of Microfinance in India, prepared for Institute of Microfinance, Frances Sinha (2009)
[19] Source: State of the Sector Report for Microfinance, 2008, Access Development Services
[20] Source: Map of Microfinance distribution in India, IFMR Research, 2010
[21] Source: Microfinance State of the Sector report 2012, Access Development Services
[22] Data for Financial year 2013-14 is for disbursements up to August 2013

Chapter 6 : Assessing impacts on Clients

This chapter presents our assessment of the impact of PRF funding on MFI clients i.e. people who borrow from the MFIs. This assessment is based on the survey of 5,720 MFI clients. The purpose of this chapter is to present an analysis of the impact of PRF funding on social profiles of clients, economic status of clients, and on the social and political status of MFI clients.

6.1 Impact on Social Profiles

North Eastern Region

The proportion of MFI clients in the North Eastern states has improved from 1% in 2008 to 4% in 2012[23]. Under the PRF scheme, SIDBI has provided loans to MFIs such as RGVN (several NE states), YVU (Manipur) as well as Bandhan which also has operations in several North Eastern states. Our sample reveals that most of the clients in the North Eastern regions have received their first loans after 2008. This is reflected in in Figure 9 with percentages indicating proportion of clients receiving their loans for the first time in that year.

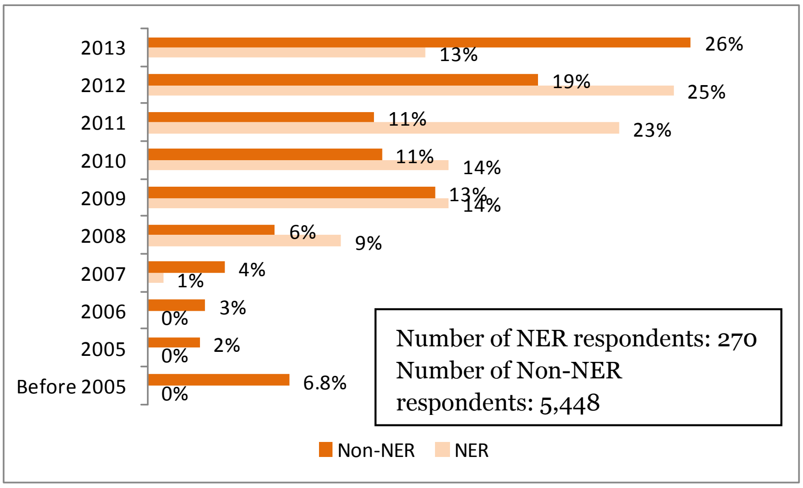


Figure 9: Year in which first MFI loan was taken by MFI clients

Source: Field Surveys

We find that in our sample the proportion of respondents from the North East who received loans for the first time was 23%, 25% and 13% for 2011, 2012 and 2013 respectively. This proportion was 11%, 19% and 26% for the non_NER respondents. It is interesting to note that none of the respondents in the North Eastern region said that they had received loans before 2007. Thus, there is evidence to suggest that there has been an

[23] State of the Sector Report for Microfinance, 2008, Access Development Services, and Microfinance State of the Sector report 2012, Access Development Services

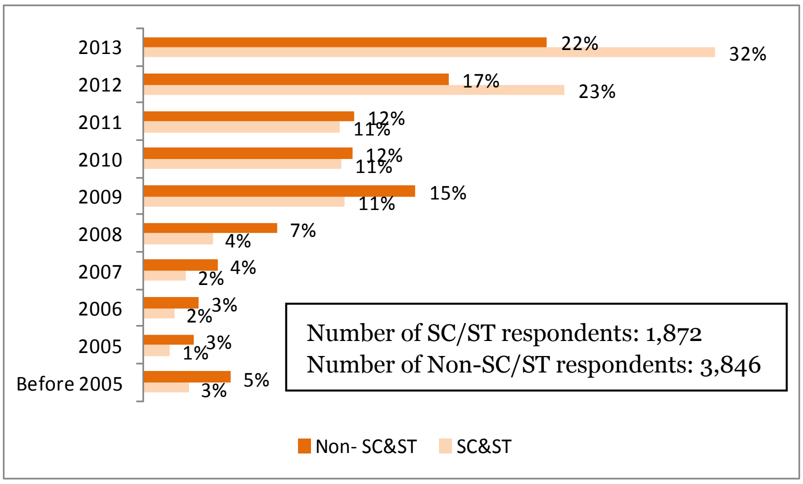
improvement in the access of clients in the North Eastern region supported by loans given to MFIs under the PRF scheme. However, in 2013, it appears that loans to first time borrowers have been proportionately less.

Women and SC/ST clients

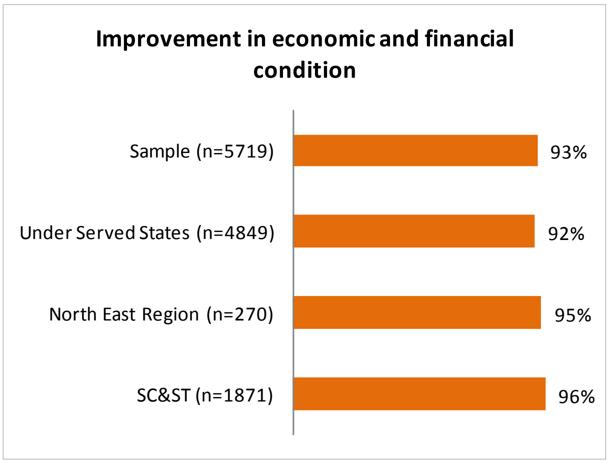
An overwhelming proportion of MFI loans have gone to women. Over 99% of the respondents in our sample were women. This is on account of the fact that lending to women is an integral part of both Joint Liability Group and Self Help Group methodologies. MFIs have also been targeting the less privileged groups including SC/ST as part of their social performance management strategy. Discussions revealed that they did not need to make any significant modifications in their lending strategy after receiving loan funds under the PRF scheme given that this has been part of their operating methodologies. It also needs to be mentioned that since 2011, there has been greater scrutiny on who the MFIs target as their clientele after the RBI issued directions regarding income criterion for priority sector classification.

The evidence from our sample suggests that there has been an increase in the proportion of loans going to the SC/ST group after 2011.

As illustrated by adjacent figure, a higher proportion of SC/ST clients in our sample received loans from MFIs for the first time after 2011. Importantly 32% of SC/ST borrowers had received loans for the first time in 2013, and 23% in 2012.



Source: Field surveys



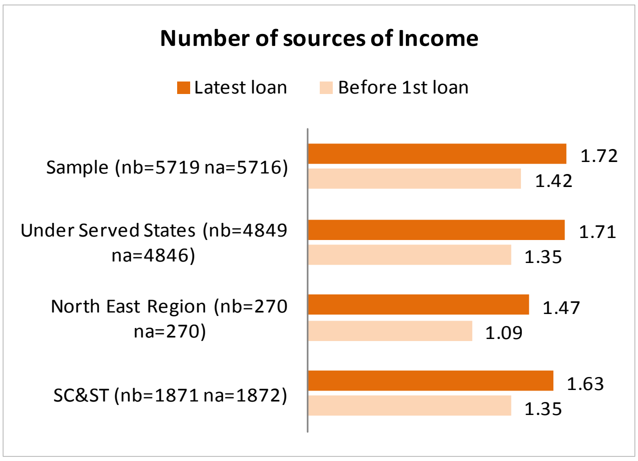
6.2 Economic Impact

Economic and financial condition

Over 90% of the respondents said that their economic and financial condition has improved after they associated with the MFI.

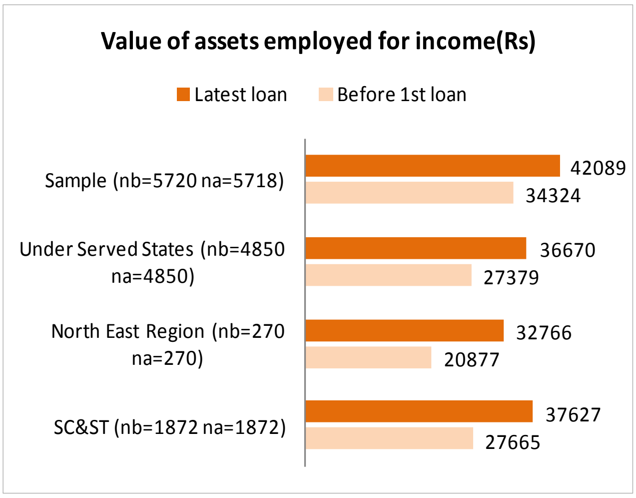
Sources of Income

Respondents in the sample reported increase in the sources of income in their households. The average number of sources of income reported is presented in the adjoining figure[24].



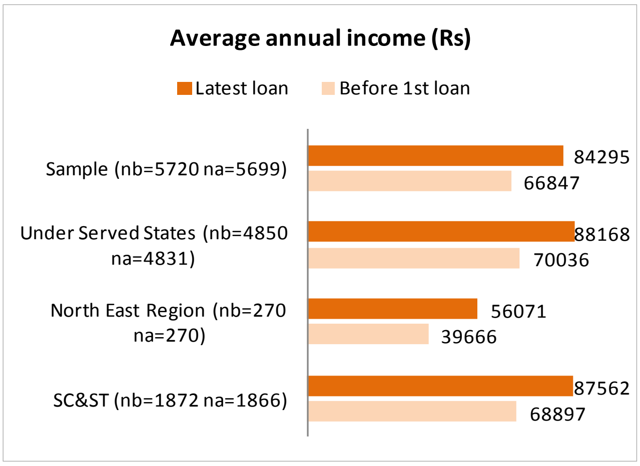
Value of assets employed for income

Respondents reported that the value of the assets employed in their business has also increased through the period of their association with the MFI.



Annual Income

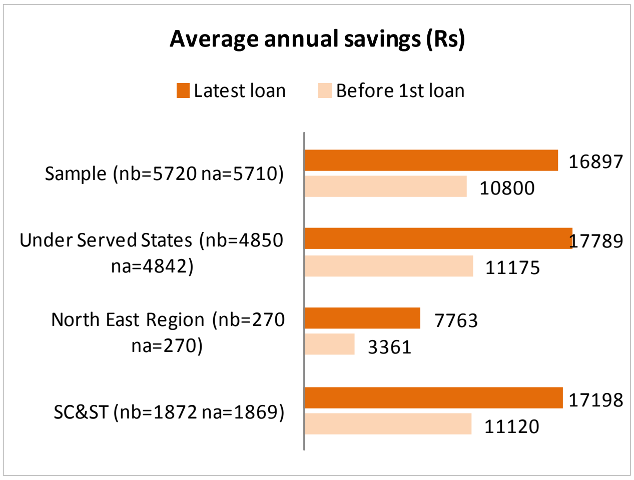
The comparison between the annual income reported by our respondents shows an improvement for the sample as well as across the categories defined by us. In order to make this comparison we have adjusted their current incomes by an annual inflation rate of 8%. To do this we have discounted their present stated income by 8% for the number of years between 2013 and the year when they first took the loan. The comparison of the average annual income is presented in the illustration below.



[24] In the charts, "nb" indicates the number of eligible responses for before first loan, and "na" indicates the number of eligible responses for after latest loan

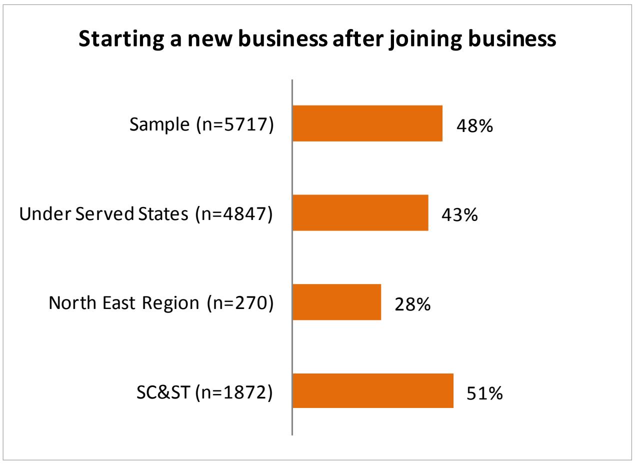
Annual Savings

Similar to the reported income, the reported annual savings of the respondents also show an improvement. The annual savings have also been adjusted for an annual inflation of 8%.



New Business

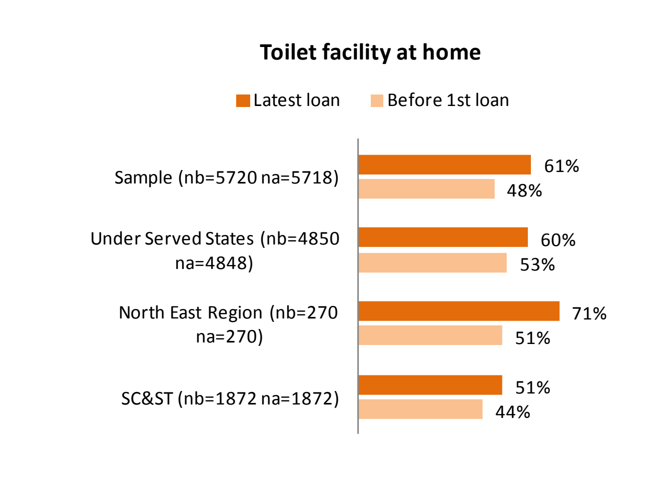
Over 40% respondents stated that they had started a new business after joining MFI. However, this proportion was low at 28% for clients from the North East.

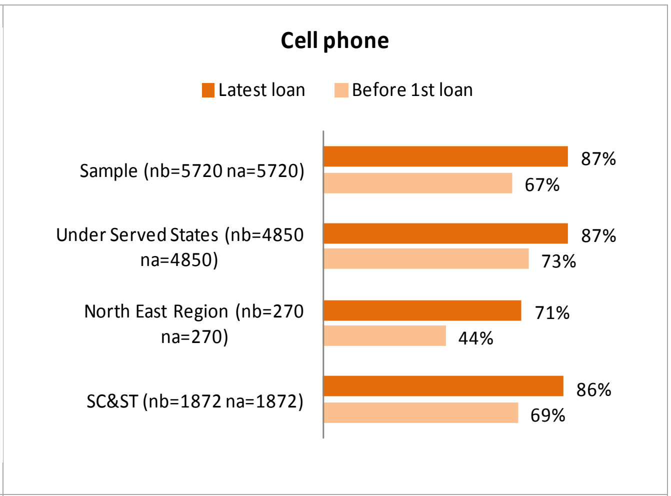


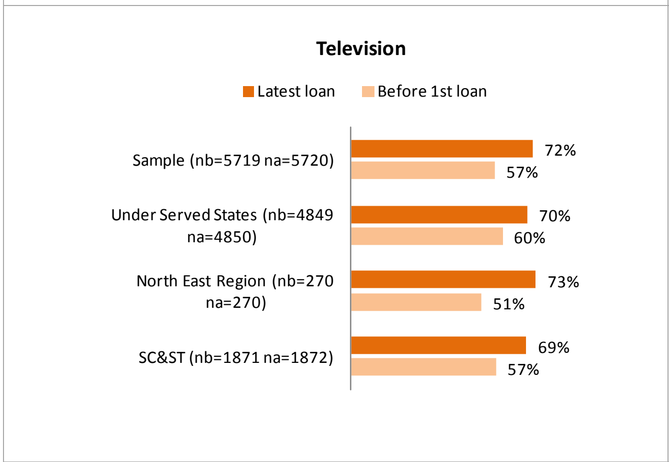
Access to amenities at home

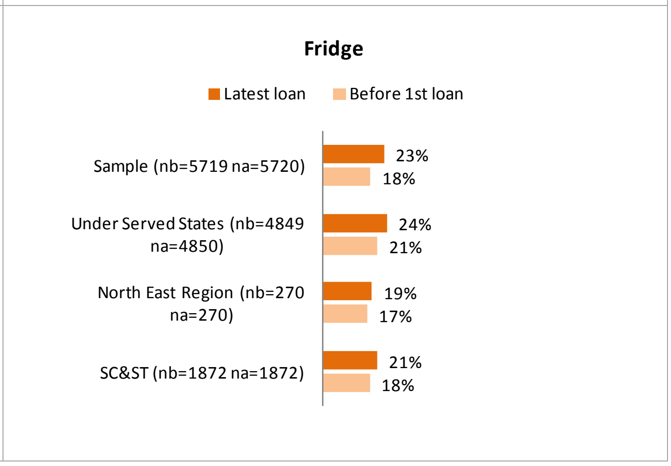
Enhanced income combined with improved decision making also resulted in improvement in access to amenities at respondent's households. In our sample:

- Access to toilet facility at home increased from 48% to 61%.
- Access to cellphone in the respondents' households increased from 67% to 87%.
- Access to television in the respondents' households increased from 57% to 72%.
- Access to fridge increased from 18% to 23% in the respondents' households.









Loan utilization over time

The following table presents the utilization of loans by clients over multiple loan cycles. It needs to be noted that a clients may have utilized her loan for more than one purpose. Thus the purposes are not exclusive. A majority of the clients report utilizing loans for working capital, start of new business or purchase of income generating assets. However, we did not find any significant variation across the different loan cycles.

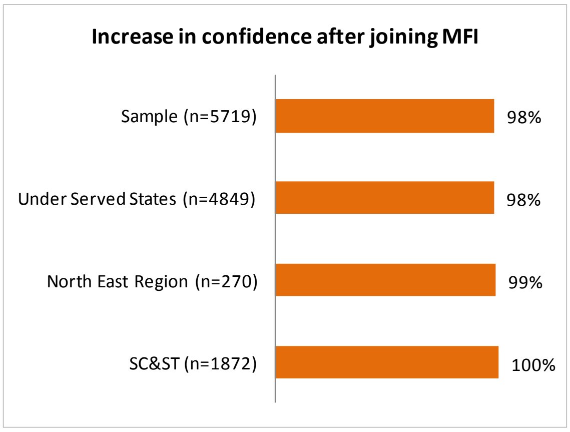
Loan utilization over time	1st loan cycle	2nd loan cycle	Latest loan
Repayment of earlier debt	5%	3%	2%
Recovery of assets that may have been mortgaged to some lender	2%	2%	1%
Emergency (hospitalization, death)	3%	3%	1%
Purchase of TV, Fridge, etc	2%	3%	2%
Marriage	1%	2%	1%
Child's education	3%	4%	2%
Assets such as livestock etc for income generation	14%	13%	17%
Working capital for income generation activities	53%	61%	62%
Starting new business	18%	9%	24%
Total number of responses	**2,505**	**2,013**	**3,151**

6.3 Social and Political impact

We present below the survey results on the social and political factors. The results have been presented for the entire sample as well as certain sub-groups of interest in this study. The sub groups include:

1. Under Served States: Before 2003, most of microfinance was concentrated in south India. Even at present, south India accounts for nearly 50% of MFI clients. Hence we have classified Non-south States as Under Served States.
2. North East region: This comprises of respondents from Assam and Manipur.
3. SC/ST: This comprises of respondents who are classified as Schedule Caste (SC) and Schedule Tribe (ST)

The responses represent the present perceptions and opinions of the respondents. The comparison between their past and present status, including socio-political and economic status is based on their current recollection of their past profile.

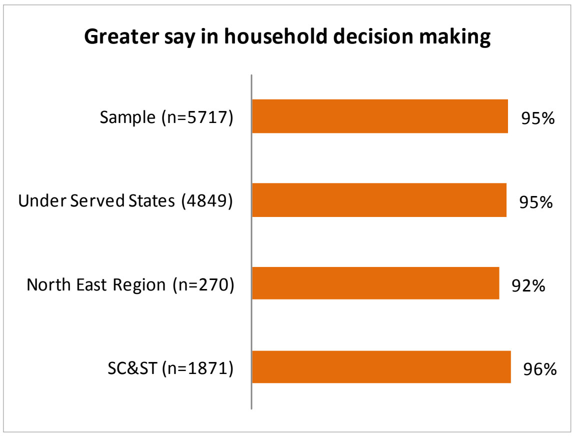


Increase in confidence

Almost all the respondents reported an increase in confidence after association with MFI. This observation is uniform across SC& ST clients, clients in North East Region and Under-served (Non-south) states.

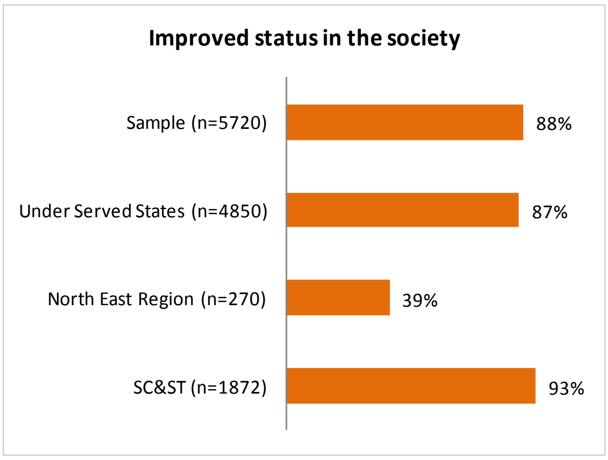
Status in the family

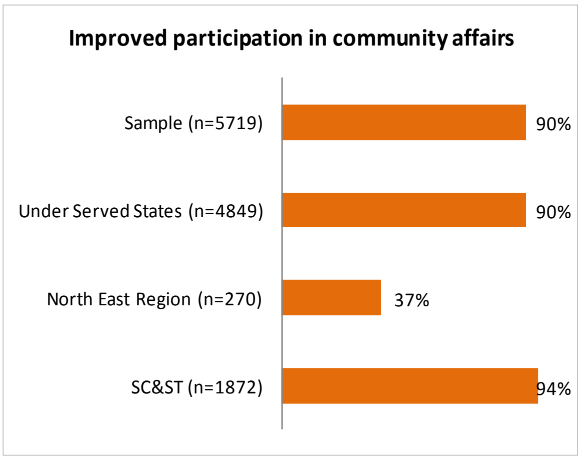
Over 90% of the respondents reported increase in their status in the family resulting from their association with the MFIs. Over 90% of the clients also reported greater say in the household decision-making. This is true for all the subgroups in the sample, representing under-served (non-south) states, North East, SC/ST.



Status in the society

88% of the respondents reported improved status in the society and 88% reported increased participation in community activities on account of their association with the MFIs. However, the percentage for both these factors was considerably low for respondents from the North East region.



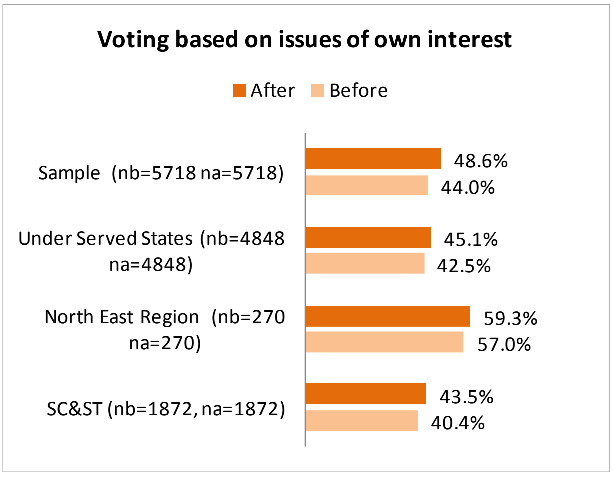


Awareness about government schemes

Over 90% of the respondents have reported awareness about Mid-day meal and Pulse Polio scheme. Over 80% were aware about the old age pension scheme. 69% of the respondents were aware of the Rashtriya Swastha Bima Yojana for BPL households, 67% were aware about MNREGS, and 60% were aware about the National Pension Scheme. However, the awareness reported on these parameters were independent of whether or not, social issues were discussed in the group meetings. This shows that respondents do not rely on MFIs in order to stay informed about government schemes and have other sources of information.

Client engaging in income generating activities

Over 90% of the respondents engaged in income generating activities after joining the MFIs. However, only 13% reported increase in number of income generating activities on account of their association with the MFIs.



Voting behaviour

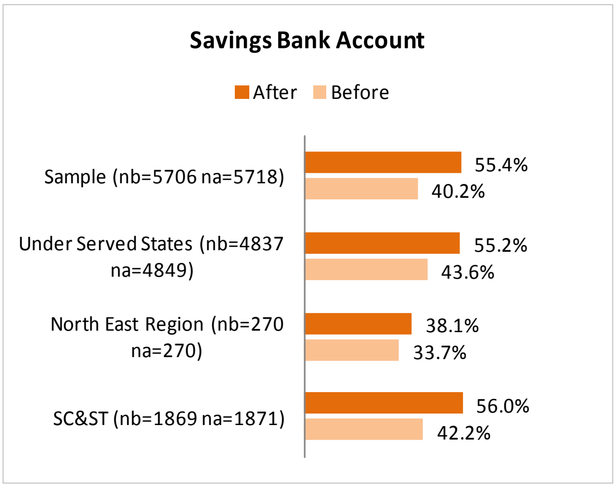
The proportion of respondents saying that they voted on the basis of their own interest rather than guided by their husbands or other family members has shown only limited improvement from 44% to 48.6%. Increase is marginal among respondents in SC&ST, North East Region, and underserved (non south) states.

Access to financial services

Savings bank account

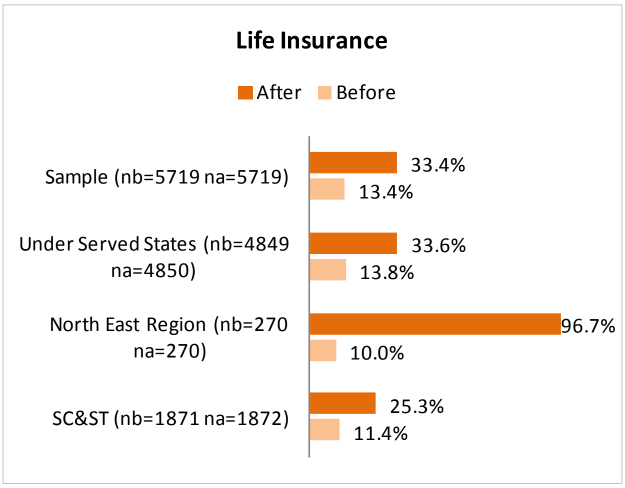
Reported access to savings bank account improved from 40.2% to 55.4% for the sample. The proportions are similar for all the sub groups.

The percentages presented above have been calculated for the following eligible responses on the question regarding improvement in access to Savings bank account.



Life insurance

Around 33.4% of the respondents revealed that they had access to life insurance now, as compared to 13.4% who said that they had access to life insurance before they had joined the microfinance programme of the MFI. This difference in proportion is particularly large for respondents from the North Eastern regions, where over 96% reveal access to life insurance after joining the MFI as compared to 10% who said they had access before joining the MFI. As MFIs generally facilitate provision of life insurance linked to their loans, the higher "after" percentages reported is intuitive.

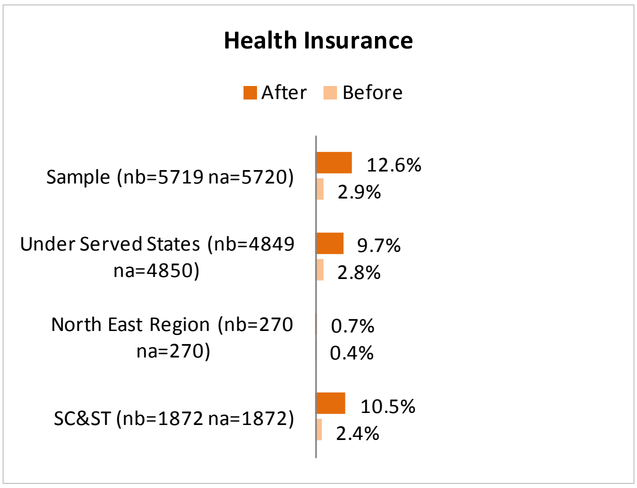


Pension

The awareness regarding pension schemes was found to be negligible. This demonstrates that MFIs have not been involved in raising awareness among their clientele on issues such as

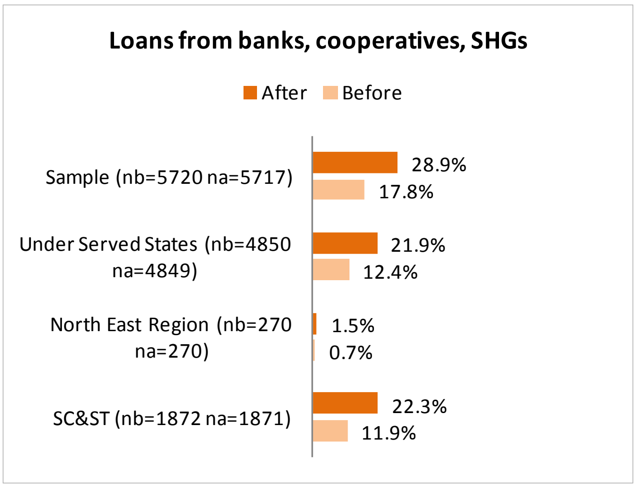
Health Insurance

Proportion of clients having access to health insurance has increased 12.6% to 2.9% but this proportion still remains very low. It can be inferred that the MFI clients have little access to health insurance services and MFIs.



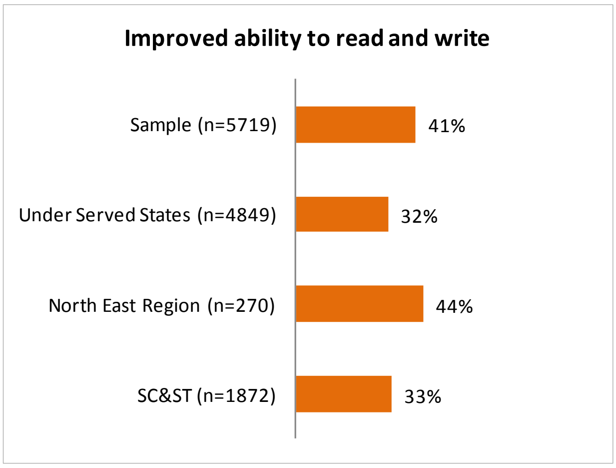
Loans from banks and cooperatives

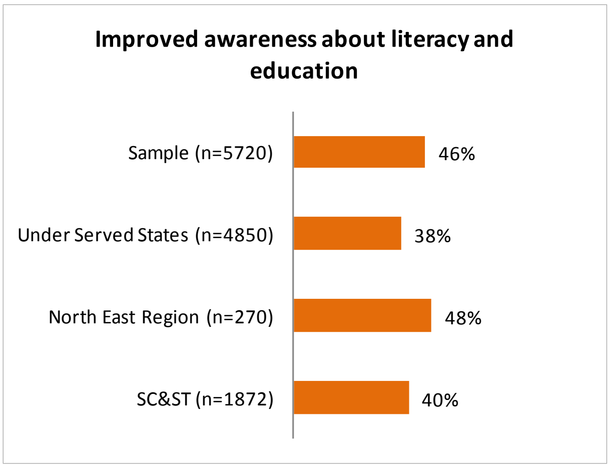
28.9% of sampled respondents had loans from banks or cooperatives. Among the respondents from the NE region, only 1.5% of the respondents had loans from banks or cooperatives.



Literacy and education

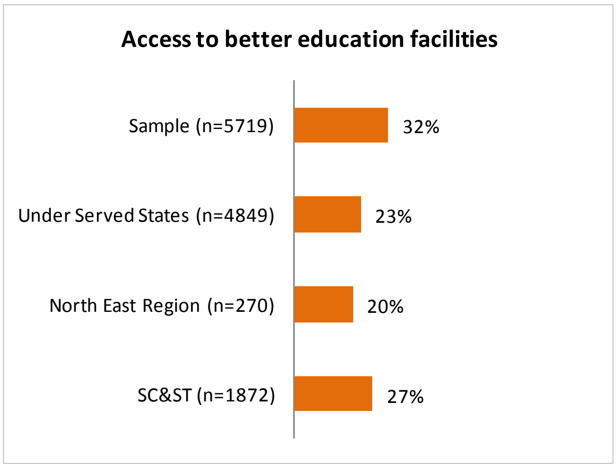
About 46% of the respondents reported improved awareness in literacy and education related issues on account of joining the MFIs while 41% of respondents reported improved reading and writing skills. The corresponding proportions for underserved states are lower at 38% and 32%. Microfinance methodologies followed by some of the MFIs require them to teach clients to at least write their names. Additionally, transactions and proceedings of the group meetings need to be recorded in the registers maintained by the SHGs. These factors are likely to lead to improvement in literacy and education related issues.

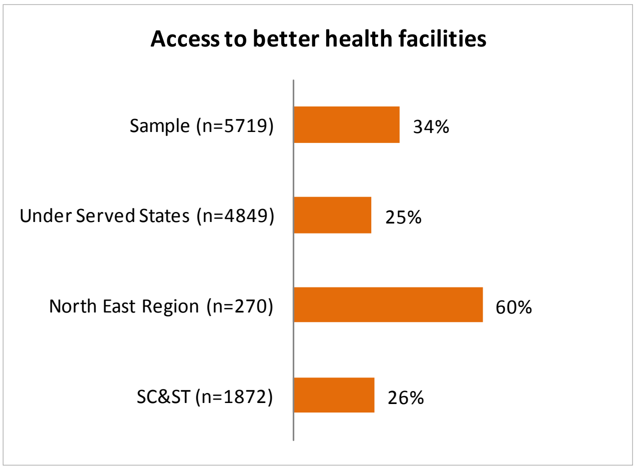




Access to better health and education facilities

32% of the clients reported access to better education facilities and 34% reported access to better health facilities. The percentage reported under better education facilities are lower for the sub groups than the sample. This is because respondents from south India have reported much better access to education facilities. The respondents from North East report a much higher percentage under access to better health facilities.





Chapter 7 : Implications of findings

7.1 Summary of extent of impact of PRF

The PRF has helped MFIs scale up their operations and diversify geographically. MFIs such as Bandhan and RGVN, which have presence in eastern and north eastern regions have received loan support under PRF. Bandhan, as presented in the case study given in Annex 9, received loans under PRF at the start-up stage and has gone on to become the largest MFI in the country. As the MFIs scaled up, they have been able to secure on-lending funds from diverse sources. There has been correction in the regional disparity in the provision of microfinance, with the geographical spread of microfinance. Thus, clients in previously under-served areas have better access to micro credit. The impact on their socio economic and political profile is largely favourable.

7.1.1 Areas where PRF has succeeded in producing a positive impact

Growth and Outreach of MFIs

SIDBI's loans to MFIs under the PRF scheme are strongly associated with increase in the operating scales of MFIs. These loans were particularly helpful to the MFIs during the early stages of their growth. Some of the largest MFIs of India have received loans from SIDBI under the PRF scheme when they were small, and the PRF loans helped them scale up and diversify geographically. Higher first PRF loans as compared to the size of the outstanding borrowings of the MFIs are related to higher growth rates of MFIs. Over the years of the PRF scheme, the skew in favour of southern India and particularly Andhra Pradesh, has been corrected to quite some extent, with microfinance witnessing growth in eastern, north eastern and northern parts of the country. Also, as there was a focus on underserved areas and that had the effect of MFIs diversifying their operations geographically. MFIs that had sound risk management framework could limit risks associated with geographical concentration.

Access to Funds

Commercial banks and other financial institutions providing on lending funds to MFIs view SIDBI as an anchor while making their own lending decision. This makes it easier for MFIs who have a relationship with SIDBI to secure funds from other sources. In our sample, cumulative outstanding borrowing of the MFIs was nearly 10 times the total loans received by them under the PRF scheme.

As the security deposit requirement for MFIs under the PRF scheme was only 2.5%, as against the usual 10% that they need to provide to SIDBI, SIDBI was able to lend to more MFIs in their early stages. This is important because MFIs have been constrained for capital during their early stages and most of them found it difficult to secure funds for on-lending.

Impact on Clients

The impact on clients of MFIs is largely favourable. Given the fact that MFIs were encouraged to lend to underserved areas, the PRF did have an impact in widening microfinance. However, MFIs did not make any modifications to their loan products when the received loans under the PRF scheme. Moreover, MFIs have not made distinction between PRF and non PRF clients. Most MFI clients in our sample would have received loans related as well as unrelated to PRF-loans. So, the impact on clients is related to having access to microfinance and not explicitly to PRF related funds.

7.1.2 Areas where PRF could have been better

Specific Guidelines regarding Disbursement of Loans

During Fy08 to Fy09, a significant proportion of the loan funds disbursed under PRF went to MFIs operating in Southern India[25]. Moreover, some of the loans under PRF went to MFIs which were operating in Andhra Pradesh, a state which subsequently witnessed a crisis that has been attributed to excesses committed by MFIs[26] . During that period the southern states including Andhra Pradesh, were viewed as growth states which still had unmet demand. However, southern India did have significant presence of microfinance at that time and there was a case for targeting other regions of the country. Review of some of the loan agreements for the period prior to Fy10 reveals that the specific conditions of disbursements under the PRF were not mentioned in these agreements.

[25] The Govt. of India extended the PRF facility across the country effective from April 1, 2007 which was subsequently restricted to underserved areas / states with effect from July 24, 2008. The coverage under PRF was allowed to MFIs in Southern states during FY 2008 and FY 2009.
[26] MFIs with operations restricted to Andhra Pradesh include CRRSA, Adarsha, KBS Lab, Grama Siri, RASS, Saadhna etc.

Had there been clearly documented guidelines regarding the disbursement of these loans to such areas which had lesser penetration of microfinance in the loan agreements, MFIs getting these funds would have utilized it in growing their portfolios in other regions.

Continued support

MFIs in their early stages find it difficult to have continued access to funds. In case an existing loan is not renewed their growth is stymied. On the other hand continued support from a lender like SIDBI may help a capable organization with sound management to scale up considerably. This is illustrated in the case of Bandhan, which received continued support from SIDBI under the PRF scheme during its growth phase. This allowed it to scale up in a sustainable manner. Many MFIs in our sample received loans under the scheme intermittently. As a result they have found it difficult to improve their scale of operations.

Support under the PRF is structured as Term Loan. Term loans are designed to run down over the course of their term. Due to this, if new funding is not made available from SIDBI and the MFI is unable to raise sufficient funds from other sources, its portfolio and outreach declines. It is imperative therefore for SIDBI to take a long term perspective particularly for an early stage MFI and plan its sanctions and disbursements in a manner that allows the MFI to diversify its funding sources. If feasible, support in the form of line if credit should be provided.

Timely support

Our discussions with MFIs revealed that they found the span between the time when they made their loan applications to the time when they received loan funds from SIDBI to be long. As a result they found it difficult to plan their own disbursements to their clients. More certainty regarding the time lines would have allowed these MFIs to better plan their disbursements and execute their business plans in a better manner.

Countercyclical support

During 2010-11, when the microfinance sector witnessed a crisis in Andhra Pradesh, on-lending funds for MFIs became scarce, as lenders were apprehensive of extending loans to MFIs due to reputational risk and credit risk associated with such lending. As a result even those MFIs that were not operating in Andhra Pradesh found it difficult to maintain the scale of their operations. In our discussions with them, it emerged that they had expected loan support from SIDBI during that time given that SIDBI has greater understanding of the sector. It should however be mentioned, that SIDBI lending under PRF scheme has indeed helped MFIs such as Arohan turn around post 2010-11.

7.2 Factors influencing impact

Continued support by SIDBI

As discussed above, continued loan support from SIDBI has helped Bandhan scale up its operations considerably and provide services in areas that had been under served. Other MFIs that have benefitted include Cashpor and RGVN. Asmitha has also received loans from SIDBI over a continued period of time. While this helped the MFI grow its operations considerably until 2010, it was adversely affected by the microfinance crisis of 2010 and had to take recourse to corporate debt restructuring. However, the organization has since then diversified its geographical presence and is on the path of recovery.

SIDBI's role as an anchor

SIDBI is viewed by commercial banks as an institution that has helped in the creation of vibrant microfinance sector. It is seen as having anchored the MFI led microfinance model. Thus MFIs that receive loans from SIDBI find it easy to access loans from other banks and financial institutions.

Factors related to MFI's characteristics

The impact of the PRF scheme has also been influenced by the institutional characteristics of MFIs. Some of the important MFI specific factors are the following:

- **Client relationship management**: MFIs that have followed sound client relationship management practices have been able to best utilize loan funds made available under the PRF scheme. Ensuring that clients are not over-indebted and healthy recovery practices have been important for sustainable growth of MFIs. MFIs such as Ujjivan and Bandhan which have been able to evolve their operational procedures in a manner that reduces the possibility of stress among their clients have been successful in scaling up their operations across geographies.

- **Access to Patient Risk Capital:** MFIs that had access to patient risk capital were able to make the investments necessary to sustain effective microfinance operations. This allowed them to roll out operations in different geographical areas and meet the "sunk cost" requirement. The most prominent example is Bandhan, which received equity investments from SIDBI as well as IFC, both patient investors with mandates to further the access of microfinance in underserved areas. Similarly, Equitas has received equity support from SIDBI and Ujjivan has been able to attract equity from IFC. All these MFIs have been able to diversify geographically.

- **Sound governance and strong management in MFIs**: The importance of sound governance structures for organizational success is universally acknowledged. MFIs that were able to evolve sound governance structures and strong management teams are the ones that have been able to leverage the loan support under the PRF scheme well. MFIs such as Ujjivan and Equitas which have board level committees to provide oversight on areas concerning audit, risk management, social performance are able to keep track of organizational performance vis-a-vis expectations of various stakeholders, including SIDBI.

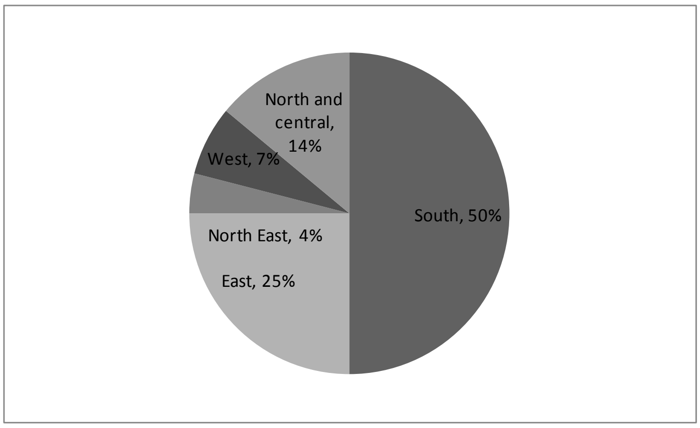
- **Risk management**: MFIs who have been able to avoid concentration of credit in a limited geographical area, as well as manage their liquidity risk have been successful in achieving better outreach. They have also been successful in securing funds from diverse sources.

Chapter 8 : Recommendations, future relevance and prospects

8.1 Key Findings

I. Regional Disparity Needs Further Correction

SIDBI has used the PRF scheme to support many MFIs during their early life-cycle stages. MFIs have been encouraged to expand operations to underserved geographies such as the North Eastern region. The microfinance loans have primarily been given to women and other underprivileged sections of the society. However, the distribution of microfinance in India is still characterized by regional disparities. South India still accounted for nearly 50% of microfinance outreach in 2012, as illustrated in the following chart[27].



II. Commercial Capital Chases Short Term Returns

MFIs have been successful in attracting funds from commercial sources. This has helped them in rapidly scaling up their operations. However, this has also prompted MFIs to provide their services in places where the success of microfinance models have been demonstrated so that they could provide scale and returns on investment rapidly. This had the effect of concentration of microfinance in certain geographies, where there are multiple MFIs providing services to essentially the same set of clients. The microfinance crisis in Andhra Pradesh exemplifies the ill-effects of this interplay of commercial investment and concentrated growth of microfinance. On the other hand, lending under the PRF scheme encouraged MFIs to operate in under-served areas. Such a strategy is important for the long term spread of microfinance.

[27] Source: Microfinance State of the Sector report 2012, Access Development Services

III. *Stewardship with Performance Norms such as Code of Conduct and Fair Practices*

SIDBI has played an important role in convening lenders' forum to discuss issues, develop common reporting formats and common lending covenants. SIDBI has also played an important role in promoting Code of Conduct Assessments, Loan Portfolio Audits and rating of MFIs. MFIs willingly undergo exercises such as Code of Conduct Assessments and Loan Portfolio Audits because they value their relationship with SIDBI. The PRF scheme strengthens SIDBI's standing as an important anchor in the microfinance sector and helps it establish norms for sound operational practices by MFIs.

8.2 Recommendations

The impact of loans under the PRF scheme has been favourable. There is a case for continuing SIDBI's intervention under the scheme so that more MFIs who have operations in areas that are underserved can be supported in their efforts to provide financial services. Furthermore, the following can help in enhancing the impact under the scheme:

1. ***Track the regional concentration of microfinance :*** This will help SIDBI identify geographical pockets that are under served and guide the disbursement of loans under the PRF scheme. To begin with SIDBI may track the microfinance concentration by states. As MFIs have now started providing their lending data to Credit Information Bureaus, it is likely that information regarding concentration of microfinance by districts will be available in the future. SIDBI may utilize this information to target underserved districts by requiring MFIs to furnish the information regarding the districts that they plan to disburse in and the concentration of microfinance in these districts based on Credit Information Bureau reports, in their funding proposals.

2. ***Establish qualification criteria for MFIs:*** SIDBI should lay down criteria for MFIs that qualify for support under the PRF scheme. This should take into account the operational area of the MFI, its institutional capability particularly governance and risk management, as well as its business plan.

3. ***Have conditionality regarding limits on portfolio concentration of an eligible MFI:*** If a high proportion of an MFI's loan portfolio as compared to its net

worth is concentrated in a single district, the MFI is vulnerable to contagion deterioration in its portfolio quality. Hence MFIs should be encouraged to diversify their loan portfolios across several districts. As they scale up, they should be encouraged to diversify across several states.

4. ***Decision on MFIs loan proposals should be taken according to established timelines:*** Once a loan proposal is received from an MFI, the decision regarding the sanctioning of the loan should be undertaken in accordance to established timelines for the necessary due diligence.

5. ***Establish clear guidelines regarding lending undertaken by MFIs:*** In the loan agreements with MFIs, SIDBI should ideally provide guidelines regarding districts in which the PRF related funds can be disbursed by MFIs.

6. ***Provide continued support:*** This is particularly important for capable MFIs that are operating in under-served areas which other wholesale lenders might avoid. Continued support to such MFIs can ensure that they are able to reach an operating scale which allows them to attract other lenders and investors.

7. ***Provide countercyclical support:*** There have been periods when funding and liquidity have been scarce for MFIs. This results in considerable stress to even capable MFIs. As a result of this, their ability to provide financial services to their clients also diminishes. If SIDBI can provide funds during such stressful periods, MFIs will be able to serve their clients better.

8. ***Monitor performance:*** The lending undertaken by the MFIs should be monitored particularly with respect to the districts these loans were disbursed in. This may be done through utilisation reports furnished by MFIs that provide information regarding districts where these funds were disbursed. SIDBI may also make the validation of this information necessary as part of independent Portfolio Audit and Code of Conduct exercises that it requires these MFIs to undertake.

Annexure

Annex 1. Assessment of major practices followed by other banks for obtaining security from MFIs

Banks and NBFCs have provided funds for on-lending to MFIs either as term loans or through portfolio buy-out (assignment transactions).

For term loans, banks and NBFCs generally ask for the following security:

1. Hypothecation of book debt ranging from 100% to 200%
2. Fixed deposit collateral ranging from nil to 15% of loan
3. In a few cases personal guarantees of the promoter-directors are also obtained

The security requirements vary according to the institutional profile of the MFI. Smaller MFIs generally face stricter security requirements. On the other hand some of the larger MFIs that we interacted with stated that they were able to obtain complete waiver of security requirements on term loans. Table 18 presents some of the security conditions that we came across during our study:

Table 18: Security deposit requirements by some banks

S.N	Name of Bank	Nature of Security	
		Hypothecation of book debts	Fixed Deposit/ collateral
1	ICICI Bank	100%-110%	Nil to 15% of loan
2	Axis Bank	100%-110%	Nil to 10% of loan
3	Indian Overseas Bank	133.33%	10% of loan
4	State Bank of India	125%	10% of loan
5	IDBI Bank	100%-200%	5% of loan
5	State Bank of Patiala	115%	10% of loan
6	South India Bank	100%-120%	10% of loan
8	Catholic Syrian Bank *	100%	2% of loan
9	Corporation Bank	115%	10% of loan
10	Corporation Bank*	105%	5% of loan
11	State bank of Travancore	125%	Nil
12	Karnataka Bank Ltd	100%	10% of loan

* Promoter-directors guarantees were obtained for these facilities.

For portfolio assignment transactions banks and NBFCs also obtain a First Loss Default Guarantee (FLDG) from MFIs, which are generally taken in the form of Fixed Deposits. These range from 5% to 15% of the purchase consideration. In some cases, the FLDG is imposed on the future receivables without discounting. In addition to FLDGs, some assignment transactions also require MFIs to hypothecate part of their free portfolio – typically 5%-15% of the assigned portfolio, in addition to the FLDG. Some examples of FLDG that we came across during our study is presented in Table 19.

Table 19: FLDG requirements of some banks

S.N	Name of Bank/FI	FLDG (%)	S.N	Name of Bank/FI	FLDG (%)
1	Development Credit Bank Limited	10%	**6**	Kodak Mahindra Bank	10%
2	MAS Financial Services Limited	10%-15%	**7**	IndusInd Bank	5%
3	Axis Bank	10%-15%	**8**	ICICI Bank	15%
5	IDBI	15%	**9**	HDFC Bank	15%

Annex 2. List of MFI representatives met

We acknowledge the following for providing us with useful information necessary for this study as well as helping us in surveying MFI clients:

1. Mr Eswar: Share Microfin, Asmitha Microfin
2. Mr Ashutosh Mishra: SKS Microfinance
3. Mr Kuldip Maity: Village Financial Services
4. Mr Rahul Kasinadhuni: Future Financial
5. Mr Anjan Dasgupta: Asa International
6. Mr Baskar Babu: Suryoday
7. Mr Rahul Mitra: Margdarshak
8. Mr Anup Singh: Sonata
9. Mr Jugal Kataria: Satin Creditcare
10. Mr Pramod Paliwal: Arth
11. Mr Jugal Pattanaik: Mahashakti Foundation
12. SKDRDP: Dr LH Manjunath
13. Ms Sudha Suresh: Ujjivan Financial Services
14. Mr Bikendrajit Singh Akoijam: Youth Volunteers Union
15. Dr Swati Samvastar: Lupin
16. Mr G Gopalkrishnan: Equitas
17. Mr Joslin Thambi: BWDA
18. Mr BB Singh: Cashpor:
19. Ms Rupali Kalita: RGVN North East (RGVN)
20. Mr Bhadresh Rawal: Prayas
21. Mr Shubhankar Sensharma: Arohan
22. Mr Pranab Rakshit: Sarala
23. Mr Narayanan M: Madura
24. Mr IB Verma: Bal Mahila Vikas Samiti

Annex 3. Representatives of Banks/Financial Institutions and other stakeholders interviewed

1. Mr Srinivas Bonam, Head Inclusive Banking Group, IndusInd Bank Ltd
2. Mr Aseem Gandhi, Head, Development Banking & Financial Inclusion, Ratnakar Bank
3. Mr Hariharan N, Executive Vice President, and head MFI and affordable housing group, Yes Bank Limited
4. Mr Suchindran VG, CEO, IFMR Investment Adviser Services Pvt Ltd
5. Mr Govind Singh, former Assistant General Manager, Rural Micro and Agro Banking Group (RMAG) ICICI Bank Ltd
6. Mr Shashi Srivastava, Senior Vice President, Grameen Capital

Annex 4. Categorization of states into regions

Table 20 shows the categorization of states in to regions. This categorization has been done by PwC and M2i for the purpose of analysis in this report.

Table 20: Categorization of states into regions

Region	States
East	West Bengal, Odisha, Bihar, Jharkhand, A&N Islands
North East	Assam, Manipur, Maghalaya, Mizoram, Nagaland, Sikkim, Tripura
North and Central	Uttar Pradesh, Uttarakhand, Haryana, Himachal Pradesh, Punjab, Jammu & Kashmir, Madhya Pradesh, Chhatisgarh, Delhi
South	Andhra Pradesh, Karnataka, Tamil Nadu, Kerala
West	Gujarat, Rajasthan, Maharashtra, Goa

Annex 5. List of organizations under different legal forms considered one

During the course of the continuance of the PRF loan scheme, organizational forms of some of the MFIs changed. The following pairs of organizations to whom funds were disbursed under Portfolio Risk Fund (PRF) have been considered as one for the purpose of analysis in this report.

1. Village Welfare Society and Village Financial Services
2. Bandhan Financial Services Pvt Ltd and Bandhan Konnagar
3. NEEDS and Aajiwika (Jharkhand)
4. Indian Institute of Rural Development (IIRD) and Arth Microfinance, Jaipur
5. Janalakshmi Social Service and Janalakshmi Financial Services Pvt Ltd
6. People's Forum and Annapurna Microfinance Pvt Ltd, Odisha
7. Rashtriya Grameen Vikas Nidhi and and RGVN (North East) Microfinance Ltd

Annex 6. List of organizations which have either ceased their microfinance operations or have very small operations

Table 21: List of organizations which have ceased operations or have very small operations

Sr No	MFI Name	Sr No	MFI Name
1	Nirmaan Bharati, Uttar Pradesh	**12**	Bhoruka Charitable Trust, Rajashtan
2	KAS Foundation, Odisha	**13**	Gramin, Assam
3	BISWA, Odisha	**14**	IMSE, West Bengal
4	IIRM, Assam	**15**	Pahal, Uttarakhand
5	Adarsha Welfare Society, Andhra Pradesh	**16**	Sakhi Samuday Kosh, Maharashtra
6	CRESA, Andhra Pradesh	**17**	Sangini Secondary Cooperative Ltd, Odisha
7	Grama Siri, Andhra Pradesh	**18**	Shalom Microfinance Ltd, Kerala
8	MIMO Finance, Delhi	**19**	Sreema Mahil Samilty, West Bengal
9	Saadhana, Andhra Pradesh	**20**	Sulaxmi Finance Pvt Ltd, Delhi
10	Barasat Jeevan Ashray, West Bengal	**21**	Viveka Service Society, Tamil Nadu
11	Barasat Sampark, West Bengal	**22**	Sevashram, Kerala

Annex 7. Data of MFIs used for regression analysis

Table 22: Data of MFIs used for regression

Sr No	MFI	Cumulative funding support provided to the MFI under PRF	Outstanding Loan Portfolio 31 Mar 13 (Rs Mn)	Ratio of 1st loan under PRF to Opening Borrowings	Compounded Annual Growth Rate in loan portfolio**
1	Bandhan	5,772	44,209	200%	170%
2	Equitas	50	11,347	74%	133%
3	SKS	1,690	23,590	13%	59%
4	Janalakshmi	600	9,608	46%	73%
5	Village Financial Services^	112	1,097	3%	45%
6	Madura Microfinance	300	1,516	103%	11%
7	Prayas	3	112	29%	70%
8	RGVN	227	1,171	9%	47%
9	Sonata	10	1,816	67%	148%
10	Arohan	105	904	4%	21%
11	YVU	12	116	150%	34%
12	Share	1,000	19,315	42%	30%
13	Satin Creditcare	225	5,800	15%	66%
14	Cashpor	275	4,684	33%	48%
15	SKDRDP	300	20,814	11%	45%
16	Ujjivan	800	11,260	81%	126%
17	Asmitha*	2,631	10,711	18%	43%
18	Bal Mahila Vikas Samity	2	10	13%	-10%
19	Mahashakti Foundation	22	46	8%	14%
20	Sarla	65	319	32%	57%
21	Arth*	55	119	14%	-8%
22	Lupin*	13	79	34%	45%
23	Margdarshak	50	252	58%	72%

^ Funds received under PRF to Village Welfare Society and Village Financial Services have been combined.

*Approximation has been used to arrive at Ratio of 1st loan under PRF to Opening Borrowings for Asmitha, Arth and Sarala.

** CAGR of loan portfolio between the first financial year in which the loan under PRF was disbursed and the financial year ending 31 March 2013.

Regression analysis in STATA

The following variable names have been used in regression analysis

	Variable name
Total Loans Under PRF (Rs Mn)	loantotal
Outstanding Loan Portfolio on 31 Mar 13 (Rs Mn)	osportfolio
Ratio of 1st loan under PRF to Opening Borrowings	ratio1
Compounded Annual Growth Rate in loan portfolio	cagr

STATA command used for regression between "CAGR" and Ratio of "1st loan outstanding under PRF" to Opening borrowings is " reg cagr ratio1" STATA command used for regression between 'Outstanding Loan Portfolio on 31 March 2013' and 'Total Loans Under PRF' is "reg osportfolio loantotal"

Annex 8. Caselets on 15 sample MFIs

In this annexure, we take a look at 15 MFIs and their evolution through short caselets. These caselets illustrate the importance of PRF in the growth of these MFIs. The MFIs covered are:

1. RGVN
2. Arohan
3. Cashpor
4. Satin Creditcare
5. Ujjivan
6. Equitas
7. SKS
8. Janalakshmi
9. Village
10. Madura Micro Finance
11. Prayas
12. Sonata
13. YVU
14. Share Microfin
15. SKDRDP

1. RGVN (NE)MFL

The genesis of RGVN microfinance programme lies in the Credit and Savings Programme (CSP) of RGVN society, which started in 1995. The microfinance operations were migrated to RGVN (NE) MFL, an NBFC, in Financial Year 2011. RGVN had over 30,000 borrowers at the end of FY 04. However, the number of active borrowers decreased to 13,525 in FY 05, while the outstanding loan portfolio declined to Rs 35 million. It primarily operated in Assam. This was a period of great change in the organization as it introduced new products and reinvented its business model. It was during this period that RGVN received loan from SIDBI under the PRF scheme for the first time. In the subsequent years, RGVN has grown steadily. It had an outstanding loan portfolio of Rs 1,171 million with over 155,000 active loan clients at the end of FY 13. It had operational presence in Meghalaya, Arunachal

Pradesh and Sikkim apart from Assam. The following table shows the growth in the microfinance operations of the organization.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy04	37	30,480	50
Fy05	35	13,526	43
Fy06	53	15,859	57
Fy07	125	24,982	166
Fy08	256	44,722	251
Fy09	361	65,052	383
Fy10	560	1,01,389	521
Fy11	765	1,29,189	584
Fy12	1,022	1,41,420	935
Fy13	1,171	1,55,026	1,019

RGVN has received SIDBI's loan under the PRF scheme in FY 05, 06,07,08,09 and also in FY 13. These loans constituted 45% of the opening outstanding borrowings of RGVN in FY 06, 26% in FY 07, 20% in FY 08, and 16% in FY 13. This is presented in the table below.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy05	5	50*	9%
Fy06	20	43	45%
Fy07	15	57	26%
Fy08	33	166	20%
Fy09	5	251	2%
Fy10	-	383	0%
Fy11	-	521	0%
Fy12	-	584	0%
Fy13	150	935	16%

*Outstanding liabilities

One may conclude that SIDBI's loans under the PRF scheme were significant for RGVN and it allowed it to recover and grow. Moreover, relationship with SIDBI also helped RGVN to secure funds from other sources including social investors, public and private sector banks. RGVN had 9 institutional lenders at the end of Fy 13.

2. Arohan

Arohan Financial Services Private Limited (Arohan) started its operations in 2006 with a vision to provide financial services to low income clients in Eastern India. The organization had reached an outstanding loan portfolio of Rs 978 million with a clientele of over 187,000 borrowers in March 2010. However, the organization witnessed rapid decline in the outstanding loan portfolio between Mar-11 and Mar-12. Since then, Arohan has turned around and resumed on its path of steady growth. By September 13, Arohan had over Rs 1,370 million in outstanding loan portfolio and over 161,000 borrowers. It had operational presence in West Bengal, Bihar and Assam.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)	SIDBI PRF Loan (Rs Mn)
Fy09	419.1	86,237	344	0
Fy10	978.0	187,754	931	15
Fy11	898.4	214,059	731	0
Fy12	539.4	107,612	334	75
Fy13	904.3	113,665	613	15
Sep-13	1376.1	161,568	932	0

Arohan received loans from SIDBI under the PRF scheme during FY 10, FY 12 and FY 13. Although these loans were relatively minor, given the size of the outstanding borrowings of the organization, they helped organization sustain during a period when it had faced operational problems, and was finding it difficult to raise new loans. SIDBI's continued support during this period also helped Arohan generate confidence among other lenders and investors. The organization was acquired by Intellecash in Fy 12, which has helped its capitalization. It may be concluded that relationship with SIDBI was an important factor that helped the organization overcome a very difficult phase in its lifecycle. In particular, loans under the PRF scheme helped it tide over a period of intense liquidity stress. At the end of Fy 13, Arohan had 15 institutional lenders.

3. Cashpor Micro Credit

Cashpor Micro Credit (Cashpor) is a not for profit microfinance company with operations in eastern Uttar Pradesh and Bihar. Cashpor was the first MFI to start operating in this region. It had an outstanding loan portfolio of Rs 141 million and a clientele of over 34,600 borrowers. As on 31 March 2013, Cashpor had an outstanding loan portfolio of over Rs 4,680 million with over 548,000 borrowers. The organization had operational presence in 15 districts of Eastern UP and 6 districts of Bihar.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy04	141	34,687	137
Fy05	270	68,229	248
Fy06	510	123,359	314
Fy07	869	201,692	749
Fy08	1,473	303,245	1,467
Fy09	1,810	314,154	1,194
Fy10	2,674	417,039	2,318
Fy11	2,381	431,463	2,257
Fy12	3,231	460,403	2,333
Fy13	4,684	548,934	4,026

Cashpor received Rs 45 million in loans from SIDBI under the PRF scheme during Fy 2004-05. As on 31 March 2004, it had borrowing outstanding of Rs 137 million. Thus SIDBI's lending during Fy 2004-05 was 33% of its opening outstanding borrowings. Cashpor received more loans under the scheme in the subsequent years as presented in the table below.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy05	45	137	33%
Fy06	25	248	10%
Fy07	40	314	13%
Fy08	40	749	5%
Fy09	0	1467	0%
Fy10	0	1194	0%
Fy11	0	2318	0%
Fy12	125	2257	6%

Cashpor has experienced sound growth during the period it has received loans from SIDBI under the PRF scheme. Particularly during the early years (Fy 04 to Fy 06), these loans were important as they allowed the organization to grow its loan portfolio, they also helped draw other lenders to the organization. This effectively helped the organization diversify its sources of funds, and reduce its dependence on the partnership model of a leading private sector bank. At the end of Fy 13, Cashpor had a well diversified funding base with relationship with 25 institutional lenders.

4. Satin

Satin Credit Care Network Limited (Satin), had an outstanding loan portfolio of Rs 397 million with a clientele of 20,671 as on 31 March 2008. Its operations were largely concentrated in the National Capital Region of Delhi. By March 2013, Satin had an outstanding loan portfolio of Rs 5,800 million with over 485,000 borrowers and operations spread over nine States and Union Territory. The following table presents the growth of Satin over the years.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy08	397	20,671	527
Fy09	760	56,366	796
Fy10	1278	1,66,102	1842
Fy11	2296	2,51,099	1939
Fy12	3201	3,06,317	1877
Fy13	5800	4,85,033	5864

Satin received loan of Rs 120 million from SIDBI during FY 2009-10. It had an outstanding borrowing of Rs 796 million on 31 March 2009. Thus SIDBI's lending was 15% of its opening outstanding borrowings. During this period Satin spread its operations to five states, as it was able to access funds from diverse sources. It has also received loan of Rs 105 million during Fy 2012-13, which was 6% of its opening outstanding borrowings.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy10	120	796	15%
Fy11	0	1842	0
Fy12	0	1939	0
Fy13	105	1877	6%

While the quantum of loans under the PRF scheme to Satin was not as significant as it was for some of the other MFIs, given the size of its balance sheet, it may still be concluded that SIDBI loans under the PRF scheme helped enhance Satin's credibility as a microfinance institution, and access more funds from diverse sources. This allowed the organization to grow its operations in other states. Satin had relationship with 34 lenders at the end of Fy 13.

5. Ujjivan

Ujjivan had an outstanding loan portfolio of Rs 84 million with just over 19,400 clients on 31 March 2007. It had an outstanding borrowing of Rs 62 million on this date. Its operations were concentrated in Bangalore. The organization was in the process of setting up operations in Delhi and Kolkata. It received its first loan from SIDBI under the PRF scheme in Fy 07-08. At present, Ujjivan operates in 20 states and union territories. The table below shows the growth of the organization over the years.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy07	84	19,474	62
Fy08	366	58,646	246
Fy09	1,690	261,993	722
Fy10	3,708	566,929	2,370
Fy11	6,251	847,671	4,721
Fy12	7,034	819,400	6,172
Fy13	11,260	1,006,052	9,935

SIDBI's loans to Ujjivan during Fy 07-08 were 81% of the outstanding borrowings of Ujjivan at the beginning of that financial year. This was important for Ujjivan's growth during that year, particularly as it looked to diversity its operations to Northern and Eastern India. The organization was also able to access loan funds from other sources and this has allowed it to steadily. It has also received loans from SIDBI under the PRF scheme during Fy 12 and Fy 13. However, these loans constituted a relatively small part of its liability structure. Ujjivan had 14 lenders at the end of Fy 13.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy08	50	62	81%
Fy12	250	4,721	5%
Fy13	500	6,172	8%

6. Equitas

Equitas started its operations on December 15, 2007. The organization had a clientele of 16,000 and outstanding loan portfolio (including managed loans) of Rs 167 million on 31 March 2008. Its operations were distributed across Chennai and other large towns in Tamil Nadu. By March 2013, Equitas had a clientele of 1.3 million borrowers and outstanding loan portfolio of Rs 11,347 million with operations across five states of South, Central and Western India. This represents a CAGR of 143% in clientele and 133% in outstanding loan portfolio. The following table presents the growth of Equitas over the years.

FY	Loans Under Management (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy08	167	16,000	68
Fy09	2880	3,39,158	1,837
Fy10	6053	8,88,600	4,318
Fy11	7938	13,03,339	5,919
Fy12	7240	11,93,247	4,769
Fy13	11347	13,44,361	9,984

Equitas received SIDBI's loan of Rs 50 million under the PRF scheme in June 2008. The organization did not receive any more loans from SIDBI under the PRF scheme. Equitas's outstanding borrowings on 31 March 08 was Rs 67.5 million. Thus, SIDBI's loan was 74% of the outstanding borrowings on Equitas's balance sheet at the beginning of the financial year. While, this was a significant loan, Equitas was also able to raise loans from other sources effectively. By September 2008, Equitas had 11 lenders comprising of public and private sector banks as well as other financial institutions. However, SIDBI also invested into the equity of the organization and continued to provide it loans for on-lending, although not under the PRF scheme. By March 2013, Equitas had received loans from 22 banks and financial institutions. It can be concluded that SIDBI's loan under the PRF scheme was significant for the organization

7. SKS

SKS received loan funds from SIDBI under the PRF scheme during 2006 and 2007. At that time SKS was already a frontline MFI, but its operations were largely concentrated in AP. It had an outstanding loan portfolio of Rs 921 million with a clientele of 200,000 borrowers. SIDBI's PRF related funding to SKS allowed the organization to extend and consolidate its operations in Uttar Pradesh, West Bengal, Rajasthan, Bihar, Chattisgarh, Jharkhand and Madhya Pradesh. At its pinnacle in 2010, the organization had an outstanding loan portfolio of over Rs 43,000 million and a clientele of nearly 5,800,000. The organization had a successful IPO in 2009 which allowed it to substantially enhance its capital base. However, the microfinance sector witnessed a crisis in AP, and the state government passed an act that made it difficult for MFIs to continue operations in that state. As a result MFIs operating in AP suffered portfolio losses. SKS wrote off most of its AP loan portfolio during

2011, 2012 and 2013. While the organization reported losses during this period it has been able to turn around in 2014. SKS had an outstanding loan portfolio of Rs 23,590 million and a clientele of 430 million on 31 March 2013 with presence in 15 states.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy06	921	2,00,000	703
Fy07	2,756	6,00,000	2,490
Fy08	10,506	18,70,000	7,900
Fy09	24,565	39,50,000	21,370
Fy10	43,207	57,95,028	26,950
Fy11	41,107	62,42,266	22,360
Fy12	16,689	42,56,719	10,210
Fy13	23,590	43,08,301	16,180

SIDBI's loan to SKS under the PRF scheme was 13% of its opening outstanding borrowings in Fy07. This ratio was 64% in Fy08.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy07	89.7	703	13%
Fy08	1600	2490	64%

This period also coincided with SKS's expansion in Non Andhra states, which was a condition SIDBI had set for the facility. The lending by SIDBI in 2007-08 was important for SKS's expansion. During 2007-08, SKS expanded its portfolio by over 350% and multiplied its active loan clients by 3. SKS has also been successful in raising equity and debt fund through a variety of sources, which has seen the organization sustain inspite of suffering heavy losses in AP portfolio. At the end of Fy 13, SKS had relationship with 28 lenders. In conclusion we can say that SIDBI's lending under the PRF scheme was important for SKS as it prompted the organization to diversify beyond AP and also instilled confidence in other investors and lenders of the organization.

8. Janalakshmi

The genesis of Janalakshmi's microfinance programme lies in the urban loan portfolio of Sanghamithra Rural Financial Services (SRFS). Janalakshmi Social Services acquired the urban loan portfolio of SRFS in 2006. Janalakshmi Financial Servcies Private Limited

(JFSPL) took over the loan portfolio of JSS in April 2008. The Janalakshmi brand encompasses JSS as well as JFSPL. Janalakshmi had just over 49,000 clients on 31 March 2008, with an outstanding loan portfolio of Rs 297 million. Its operations were largely concentrated in Bangalore. By 31 March 2013, its clientele had grown to nearly 700,000 with an outstanding loan portfolio of Rs 9,608 million, with presence in ten states of India. Its growth over the years is presented in the table below:

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy07	357	NA	163
Fy08	297	49,276	356
Fy09	306	43,157	244
Fy10	670	82,161	582
Fy11	1813	1,93,014	1,152
Fy12	3507	3,00,847	2,865
Fy13	9608	6,95,974	8,361

Janlakshmi (as JSS) received Rs 75 million as loan from SIDBI under the PRF scheme during Fy 07-08. At the start of that financial year its outstanding borrowings was Rs 163 million. SIDBI's lending under the PRF scheme was 46% of the opening borrowings of the organization, which is significant. Subsequently, Janalakshmi received loan funds under the PRF scheme in Fy12 and Fy13. In these years the ratio of the loan to the opening outstanding was 11% and 14% respectively.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy08	75	163	46%
Fy09	0	356	0
Fy10	0	244	0
Fy11	0	582	0
Fy12	125	1,152	11%
Fy13	400	2,865	14%

Janlakshmi has also been successful in attracting debt and equity funds from other sources over the years. While, SIDBI's PRF related lending was important for Janalakshmi during early stages, it was not critically important for its growth. The organization had 9 lenders at the end of Fy 13.

9. Village

VFSPL belongs to the Village Group or Village, which has two more organisations under its fold, one registered as Society – Village Welfare Society (VWS) and another as Section 25 Company, Village Micro Credit Services (VMCS). VWS started it microfinance activities in 1997. The Village group promoted VMCS, a Section 25 Company, during 2003-04, which took over the micro credit operations of VWS. VFSPL commenced its microfinance operations in January 2006 by taking over the loan portfolio from VMCS.

Village had around Rs 22 million in outstanding loan portfolio and around 10,000 borrowers on 31 March 2003, with operations in West Bengal. The organization had achieved Rs 1,124 million in outstanding loan portfolio with over 220,000 loan clients in March 2011. However, thereafter the organization has seen a moderate decline in its outreach. By March 2013, it had over Rs 1,000 million in outstanding loan portfolio with over 165,000 borrowers with operations in West Bengal and Bihar.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy03	26	10,504	35
Fy04	26	10,507	37
Fy05	91	33,409	67
Fy06	167	53,932	149
Fy07	152	41,167	213
Fy08	172	47,717	167
Fy09	335	77,206	344
Fy10	1,064	1,84,020	1,151
Fy11	1,125	2,22,535	826
Fy12	1,054	1,65,847	826
Fy13	1,097	1,65,479	874

Village received loans from SIDBI under the PRF scheme in each of the Financial Years 04, 05, 06. It again received loan SIDBI loans under the scheme in Fy10. These loans comprised 3% and 56% of the opening outstanding liabilities of Village in Fy04 and Fy05 respectively, and 60% of its opening outstanding borrowings in Fy06. In Fy10, they comprised 15% of the opening outstanding borrowings of Village.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy04	1	35*	3%
Fy05	21	37*	56%
Fy06	40	67	60%

FY	SIDBI PRF Loan (Rs Mn)	Opening (Rs Mn)	Borrowing	Outstanding	Ratio
Fy07	0			149	0%
Fy08	0			213	0%
Fy09	0			167	0%
Fy10	50			344	15%

*Outstanding Liabilities in the books of VWS

SIDBI's loans were important for Village during the period from Fy04 and Fy06 as they were used to grow the loan portfolio of the organization. Simultaneously, they also provided a degree of comforts to other lenders of Village to provide it with loans. However, SIDBI has not provided loans to the organization after 2010 and this period has coincided with decline in its outreach and outstanding loan portfolio. It may be argued that SIDBI's institutional support during this period would have allowed the organization to arrest this decline. The organization had relationship with 11 lenders at the end of Fy 13.

10. Madura Micro Finance Limited

Madura Micro Finance Limited started its operations in 2006 by extending loans to SHGs promoted by Micro Credit Foundation of India. The organization had an outstanding loan portfolio of Rs 829 million with a clientele of over 187,000 borrowers in March 2008. By March 2011, the organization had reached an outstanding loan portfolio of over Rs 1,700 million with a clientele of over 290,000. However, its portfolio has declined somewhat since then as it reported an outstanding loan portfolio of Rs 1,516 million with a clientele of 173,000 in March 2013. The operations of the organization are largely concentrated in Tamil Nadu.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy08	829	1,87,473	742
Fy09	1,071	1,69,700	889
Fy10	1,490	2,50,208	1,059
Fy11	1,784	2,92,634	1,340
Fy12	1,059	2,12,753	824
Fy13	1,516	1,73,029	1163.7

The following table presents SIDBI's lending to MMFL in Financial Years 08 and 09 and compares it with the outstanding borrowings of MMFL at the beginning of these Financial

Years (Opening Borrowings Outstanding). We note that the ratio of SIDBI's loan under PRF to the opening outstanding borrowings of MMFL was over 100% in Fy08, while it was 13% in Fy09.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy08	200	195	103%
Fy09	100	742	13%

We can conclude that SIDBI's loan under the PRF scheme was important for the organization in Fy08, and it allowed the organization to stabilize its operations. Subsequently MMFL's dependence on the PRF related loan has been less, although it can be argued that more lending under PRF assistance in subsequent years would have allowed the organization to sustain at a higher level of operations. The organization had relationship with 15 lenders at the end of Fy 13.

11. Prayas

Prayas Organization for Social Development (Prayas) started its microfinance operations in April 2006 in Gujarat. It received Rs 3 million as loan from SIDBI under the PRF scheme during Fy 2010. At the end of March 2009, the organization had around 3,200 clients and Rs 13.5 million in outstanding loan portfolio, with borrowings of Rs 10.31 million. Thus, SIDBI's loan under the PRF scheme during Fy10 was slightly over 29% of its opening outstanding borrowings. The organization has not received any more loans from SIDBI under the PRF scheme. It had relationship with 8 institutional lenders at the end of Fy 13. The PRF The following table shows the growth of the loan portfolio and clientele of the organization over the years.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy09	14	3231	10
Fy10	24	6017	23
Fy11	42	8194	37
Fy12	72	10537	64
Fy13	112	14812	63

12.Sonata

Sonata Finance Private Limited (Sonata), began its microfinance operations in 2006. It had an outstanding loan portfolio of Rs 3 million with 692 borrowers at the end of March 2006, with operations around Allahabad in Uttar Pradesh. By March 2013, Sonata had an outstanding loan portfolio of over Rs 1,800 million with over 190,000 borrowers, and operations in Madhya Pradesh, Uttarakhand and Haryana apart from UP. However, the operations of the organization have a high concentration in UP. The following table presents the growth of Sonata's clientele across the years.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy06	3	692	15
Fy07	50	11,393	60
Fy08	231	44,387	207
Fy09	450	76,632	308
Fy10	565	85,897	441
Fy11	824	1,32,011	686
Fy12	1015	1,32,760	728
Fy13	1816	1,91,675	1,624

Sonata received loan of Rs 10 million from SIDBI under the PRF scheme in Fy 07. At the beginning of Fy 07, ie on 31 March 2006, Sonata had Rs 15 million in outstanding borrowings. Thus SIDBI's loan which was 67% of its opening outstanding borrowings helped Sonata expand its operations in that year. Given that Sonata was a new MFI then, the relationship with SIDBI also helped build its profile and relationships with other lenders. At the end of Fy 13, it had relationship with 15 lenders.

13. YVU

YVU Microfin registered under the Indian Trust Act operates in Manipur. It had an outstanding loan portfolio of Rs 19.8 million on 31 March 2005 with a clientele of 2,735 borrowers. As on 31 March 2013, YVU had an outstanding loan portfolio of Rs 115.7 million with a clientele of 9,186 borrowers. The organization's growth over the years is presented in the table below.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy05	19.8	2,735	1.0
Fy06	25.7	3,008	1.3

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy07	37.8	2,506	3.5
Fy08	55.2	4,534	8.3
Fy09	80.1	8,596	26.6
Fy10	84.1	10,562	61.8
Fy11	93.9	9,409	74.2
Fy12	93.6	8,707	23.8
Fy13	115.7	9,186	90.4

YVU received loans from SIDBI under the PRF scheme in 2006 and 2008. In FY 2005-06, it received a loan of Rs 1.5 million, which was 150% of its outstanding borrowings on 31 March 2005. Similarly in FY 2007-08, it received a loan of Rs 10 million which was 289% of its outstanding borrowings on 31 March 2007. This period was also marked in rapid expansion of its outstanding loan portfolio and outreach.

FY	SIDBI PRF Loan (Rs Mn)	Opening Borrowing Outstanding (Rs Mn)	Ratio
Fy06	1.5	1.0	150%
Fy08	10	3.5	289%

YVU continues to remain a small MFI as it has enjoyed limited success in raising funds. However, the organization operates in Manipur, a state which has limited presence of MFIs. SIDBI's loan under the PRF scheme has been important for the organization in sustaining its operations. YVU has high dependence on SIDBI's loans as it does not have relationship with any other lender.

14.Share Microfin Limited[28]

Share Microfin Limited (SML) is one of the first MFIs of India, and the first one to have transformed into a Non Banking Financial Company in 2000. As on 31 March 2007, SML had an outstanding loan portfolio of Rs 3,996 million with 826,517 active loan clients, with operations across five states of India. However, the organization's loan portfolio was largely

[28] **SML Notes**
http://articles.economictimes.indiatimes.com/2011-09-29/news/30218402_1_share-microfin-udaia-kumar-microfinance-institutions (accessed 22 Nov 13)
http://www.business-standard.com/article/finance/q-a-udaia-kumar-md-share-microfin-111090800004_1.html (accessed 22 Nov 13)
http://www.microsave.net/files/pdf/SHARE_Microfin_Limited_Managing_Transformation_for_Growth.pdf (accessed 22 Nov 13)

concentrated in the state of Andhra Pradesh (AP). It received Rs 1,000 million of loan from SIDBI under the PRF scheme during Fy 2007-08. This was over 40% of the outstanding borrowings of thee organization on 31 March 2007. During this period SML expanded its operations to five new states and as on 31 March 2008, it had operational presence in 10 states. Thus, SIDBI's loan helped SML to diversify its operations across several states.

By March 2010, SML had operations in 18 states, with relationship with over 30 institutional lenders. However over 50% of its outstanding loan portfolio was concentrated in AP. The AP crisis of 2010 had a severe impact on the organization and it had to enter into a corporate debt restructuring programme in September 2011. The table below presents the growth of the organization across the years.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy07	3,996	8,26,517	2,386
Fy08	6,089	9,89,641	5,163
Fy09	12,169	15,02,418	9,714
Fy10	16,935	23,57,456	20,380
Fy11	20,649	28,40,122	20,984
Fy12	21,102	21,61,119	13,055*
Fy13	19,315	21,28,748	10,600

*Corporate debt restructuring of Rs 12,000 million by lenders during Fy 2011-12

15. SKDRDP

SKDRDP, registered as a society, follows the SHG model of microfinance and is one of the largest MFI of the country. It operates primarily in Karnataka, particularly in areas that have limited presence of other MFIs. Moreover, SKDRDP is the first organization to start microfinance operation in many of these areas.

SKDRDP had an outstanding loan portfolio of Rs 2,276 million with over 440,000 borrowers as on 31 March 2007. The organization received Rs 300 million in loans from SIDBI during the Fy 2007-08. These comprised 11% of its outstanding borrowings on 31 March 2007. The organization has also been successful in raising funds from other institutions which has allowed it to grow in an impressive manner. It had an outstanding loan portfolio of Rs 20,814 million with over 2.3 million borrowers at the end of March 2013. It had relationship with 25 institutional lenders.

FY	Outstanding Loan Portfolio (Rs Mn)	Active Loan Clients	Borrowings (Rs Mn)
Fy07	2,276	443,532	2,649
Fy08	3,419	574,968	4,119
Fy09	4,916	801,527	5,361
Fy10	6,149	1,225,570	5,812
Fy11	9,577	1,382,506	8,711
Fy12	16,161	1,015,440	14,769
Fy13	20,814	2,314,075	20,000

Annex 9. Case study on Bandhan

This annexure presents the case study of Bandhan, the largest MFI in India that illustrates the role of SIDBI's loan under PRF support in its growth.

Bandhan's Evolution

Bandhan had a little over 1,100 active loan clients and around Rs 2.2 million in outstanding loan portfolio at the end of March 2003. Its operations were limited to a single district in West Bengal. At the end of March 2013, the organization had around 4.4 million active loan clients, around Rs44.2 billion in outstanding loans, with presence in 18 states of India. This represents a CAGR of over 125% in active loan clients and over 165% in outstanding loan portfolio[29].

FY	Loan Portfolio Outstanding (Rs, Mn)	Active Loan Clients	Outstanding Borrowings (Rs, Mn)
Fy03	2.18	1,143	2
Fy04	12.04	5,734	14
Fy05	85.81	40,286	76
Fy06	371.12	1,49,886	287
Fy07	1,307.19	4,49,304	1,002
Fy08	3,309.61	8,96,714	2,830
Fy09	6,381.38	14,54,834	4,906
Fy10	14,950.83	23,01,433	13,378
Fy11	25,073.13	32,54,913	18,476
Fy12	37,302.08	36,17,641	33,649
Fy13	44,208.77	44,33,885	43,544

In 2003 Bandhan's operations were limited to West Bengal, which then did not have a significant presence of MFIs. By 2006, Bandhan had expanded its operations to Assam, Tripura, and Bihar all underserved states, apart from West Bengal. At the end of Fy 13, Bandhan had presence in 18 states in North, East and North East India.

Sound management strategy has been the most important factor behind Bandhan's outstanding growth that has seen it overcome ups and downs in the microfinance sector. However, a necessary factor that has allowed Bandhan to achieve such outstanding growth

[29] Before 2009, nearly all of Bandhan's loan portfolio was in the books of Bandhan Konnagar, a not for profit Society. After 2009, Bandhan's loan portfolio primarily has been in the books of Bandhan Financial Services Private Limited (BSFPL). After 2009, Bandhan Konnagar has undertaken social projects such as lending to the hard core poor, while commercial microfinance has been undertaken by BFSPL.

has been the support it has received from institutional providers of funds, including debt, equity and social equity.

SIDBI's Support to Bandhan

SIDBI was the sole institutional provider of funds to Bandhan as on 31 March 2003. Bandhan first received loan funding under the PRF scheme in Fy 03-04 and it has since received PRF related loan funding in several years as shown in the table below.

FY	Nos. Of Lenders	SIDBI PRF Loan (Rs. Mn)	FY	Nos. Of Lenders	SIDBI PRF Loan (Rs. Mn)
Fy04	1	4	Fy09	17	-
Fy05	4	37	Fy10	greater than 20	2,650
Fy06	6	110	Fy11	greater than 25	2,058
Fy07	9	200	Fy12	greater than 25	234
Fy08	17	480			

Further evidence of the importance of funding under PRF assistance to Bandhan is provided when one analyzes the ratio of the funding under PRF in a particular financial year to the opening outstanding borrowing in Bandhan's book during that financial year. This is presented below.

FY	SIDBI PRF Loan (Rs, Mn)	Opening Borrowing Outstanding (Rs, Mn)	Ratio
Fy04	4	2	200%
Fy05	37	14	265%
Fy06	110	76	145%
Fy07	200	287	70%
Fy08	480	1,002	48%
Fy09	-	3,054	0%
Fy10	2,650	6,869	39%
Fy11	2,058	13,378	15%
Fy12	234	18,476	1%

The table above shows that during the financial year ending 31 March 2004 (Fy 04), SIDBI provided Rs 4 million under PRF assistance. At the beginning of the financial year, i.e. on 31 March 2003, the outstanding borrowings on Bandhan's books were Rs 2 million, over 200% of the opening outstanding borrowings. We note that this ratio remained over 100% until Fy 06, and remained significant until Fy 10, with the exception of Fy 09. Quite clearly, assistance to Bandhan under PRF helped its growth.

The tables above establish:

1. SIDBI's role as a leading lender to Bandhan

2. Importance of lending under PRF in Bandhan's liability structure, particularly during Fy 04 – 08.

SIDBI also invested in Bandhan's equity in 2009, which allowed the MFI to improve its capital adequacy ratio and scale up its operations. Subsequently in 2011, Bandhan received equity investments of USD 35 million from International Finance Corporation (IFC), which helped Bandhan further expand into other areas.

In order to assess how lending under PRF helped Bandhan, it is useful to analyze the amount of lending SIDBI could have provided to Bandhan in the absence of PRF assistance. While SIDBI obtains a security deposit of 10% from MFIs it provides loans to, under the PRF assisted lending, the MFI is required to provide only 2.5%, with the remaining amount of security deposit coming from the PRF fund. The following table presents the security deposit provided by Bandhan to obtain funding from SIDBI under the PRF scheme.

FY	Security Deposit (Rs)	Security Deposit %	Leverage (Borrowings/Security Deposit)
Fy04	1,00,000	2.5%	40
Fy05	9,25,000	2.5%	40
Fy06	27,50,000	2.5%	40
Fy07	50,00,000	2.5%	40
Fy08	1,20,00,000	2.5%	40
Fy09	Nil	Nil	Nil
Fy10	6,62,50,000	2.5%	40
Fy11	5,14,37,500	2.5%	40
Fy12	58,37,500	2.5%	40

If not covered under PRF, Bandhan would have had to provide 4 times as much security deposit to borrow the same amounts from SIDBI. Conversely (and hypothetically, with the same amount of security deposit, Bandhan would have been able to borrow only a fraction (25%) of the amount it could eventually borrow. This is particularly true for the initial five years i.e. 2003-2008, when Bandhan was constrained for capital. One can argue that Bandhan's institutional capacity has evolved and it has a highly diversified liability structure now with over 33 lenders, and investors such as IFC. However, the critical role of SIDBI's assistance which has helped Bandhan achieve its present scale cannot be denied. Moreover, the condition that PRF assisted lending should be deployed in underserved areas also encouraged Bandhan to expand its operations to regions that had low MFI presence.

Annex 10. Bibliography

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