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**Republic of India**

**National Microfinance Support Programme**

**PROJECT PERFORMANCE ASSESSMENT**



June 2013





Enabling poor rural people  
to overcome poverty

**Independent Office of Evaluation**

**Republic of India**

**National Microfinance Support Programme**

**Project Performance Assessment**

**June 2013**

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Photos of activities supported by the National Microfinance Support Programme

Front cover: Weaving business of a client of RGVN (NE) Microfinance Limited, Assam

Back cover: A shop of a client of Bandhan Financial Services Private Limited, Kolkata (left); a centre meeting of the clients of RGVN (NE) Microfinance Limited, Assam (right).

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## **Preface**

*This is the project performance assessment of the National Microfinance Support Programme in the Republic of India.*

*Designed to support the institutional development of microfinance institutions during a decade of impressive growth in this sector, the programme was successful in achieving its objectives and meeting major targets with respect to supporting the sector's ability to deliver financial services to poor women and men. Through the project, the Small Industries Development Bank of India provided microfinance institutions with a package of services that included capacity building, systems development, infrastructure support, technology solutions and innovative loan products. By the end of the project in 2009, improvements were still needed with respect to investment in outreach to the underserved states, emphasis on skill development training for livelihoods promotion, a poverty focus and regulations for the sector.*

*The achievements of the project were significantly altered by a crisis in the sector in 2010, which affected microfinance institutions' portfolio quality and sustainability. This project performance assessment looked at the post-crisis period and noted recent signs of recovery with increased fund flow in the sector and more focus on client protection. In particular, the assessment noted encouraging engagement of all stakeholders in promoting a client-centric approach in order to increase household incomes of the poor.*

*The assessment was prepared by Oanh Nguyen, lead evaluator with contributions from Kotaiah Pamidi (consultant, rural finance expert) and Tupalle Chandra Sekhar Reddy (consultant, microfinance specialist). Internal peer reviewers from the Independent Office of Evaluation – Anne-Marie Lambert, Senior Evaluation Officer, and the undersigned – provided comments on the draft report. Anna Benassi, Administrative Assistant, and Laure Vidaud, Evaluation Assistant, provided administrative support.*

*The Independent Office of Evaluation is grateful to IFAD's Asia and the Pacific Division, the Government of the Republic of India and the Small Industries Development Bank of India for the insightful inputs and comments at various stages of the evaluation process and the support provided to the mission.*



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Ashwani Muthoo  
Acting Director  
Independent Office of Evaluation of IFAD

Client of Bandhan Financial Services Private Limited, Kolkata.

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## Currency equivalent

Currency unit = Indian Rupee (INR)

US\$1 = INR 54.81 (conversion rate as of January 2013)

## Abbreviations and acronyms

APR	Asia and the Pacific Division (IFAD)
CGAP	Consultative Group to Assist the Poor
COSOP	country strategic opportunities paper
DFID	Department for International Development (United Kingdom)
FFI	formal financial institution
FLM	flexible lending mechanism
IAS	Impact Assessment Study
IFAD	International Fund for Agricultural Development
INR	Indian Rupee
IOE	Independent Office of Evaluation of IFAD
M-CRIL	Micro-Credit Ratings International Limited
M&E	monitoring and evaluation
MFI	microfinance institution
MIS	management information system
NBFC	non-banking finance company
NGO	non-governmental organization
NMSP	National Microfinance Support Programme
NPA	non-performing asset
PAR	portfolio at risk
PCR	Project Completion Report
PCRv	Project Completion Report Validation
PPA	Project Performance Assessment
PSIG	Poorest States Inclusive Growth Programme
PY	project year
RBI	Reserve Bank of India
SDR	Special Drawing Right
SFMC	SIDBI Foundation for Micro Credit
SHG	self-help group
SIDBI	Small Industries Development Bank of India
UNOPS	United Nations Office for Project Services
USD	United States Dollar



# Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD  
 Map compiled by IFAD | 11-02-2013

## Executive summary

1. The National Microfinance Support Programme (NMSP) in India has been selected for a project performance assessment (PPA) by the Independent Office of Evaluation of IFAD (IOE) for two reasons. First, India is a large country of strategic importance for IFAD, and second, major changes occurred in the microfinance sector after the completion of the project in 2009. The PPA followed key methodological fundamentals stipulated in the IOE Evaluation Manual, with extensive document review and a field mission.
2. The design of NMSP had innovative and strong sector development features: the Small Industries Development Bank of India (SIDBI) - an apex development bank - was the direct borrower and implementing agency; loans from IFAD, as well as SIDBI's counterpart funding, were used as a revolving fund; and grants from the United Kingdom Department for International Development (DFID) were used exclusively for capacity-building support. The project had significant focus on institutional development for the microfinance sector, including legal framework, diversified financial products and microfinance institutions (MFI) linkages with formal financial institutions (FFI). The project was implemented across India over a period of seven years (2002-2009).
3. Generally speaking, the project successfully met the main objective of expanding the outreach of MFIs in India. SIDBI played a pivotal role in institutional development of the MFIs by providing a package of services that included capacity-building, systems development, infrastructure support, technology solutions and innovative loan products. SIDBI lending to MFIs triggered significant increases in financial flows from the FFIs to MFIs. The financial and technical inputs provided to the MFIs resulted in improved access and use of MFI loans. At the end of the project, client outreach and loan outstanding significantly surpassed the appraisal estimates. NMSP can be considered one of the most leveraged projects for IFAD as its loans were only 5.8 per cent of the total SIDBI loan outstanding to the MFIs. Outreach in the underserved states improved towards the end of the project, but more investments were still required. Moreover, there was inadequate emphasis on skill development training for livelihoods promotion. There was also some room for improvement in terms of women's empowerment and poverty focus.
4. The first decade of the 21<sup>st</sup> century (the project time line) could be termed the growth phase of Indian microfinance. During this phase, the MFIs focused only on the bottom line in order to get exponential growth, and therefore paid limited attention to client protection and effective implementation of MFI codes of conducts. The regulatory and supervisory systems were not fully developed and self-regulation was not a priority. These led to overheating in the sector, particularly in the state of Andhra Pradesh (the state that had the highest microfinance outreach), where MFIs were alleged to have been involved in multiple lending, high rates of interest and unethical recovery practices. This resulted in a major crisis in India's microfinance sector in 2010. The Andhra Pradesh government brought in a microfinance ordinance with the intention to protect poor borrowers, resulting in the entire microfinance sector coming to a grinding halt as FFIs stopped lending to MFIs across the entire country. In response to the crisis, the Reserve Bank of India (RBI) announced some regulations for the MFIs.
5. The impressive growth story of the India's microfinance sector over a decade and the achievements of NMSP were significantly altered by the 2010 crisis. Portfolio quality of the MFIs has come down, affecting their sustainability. However, there have been some recent signs of recovery with increased fund flow to the sector and more focus on client protection.
6. As an overall assessment, the project has been a successful one achieving its objectives and meeting major targets to a significant extent. Though the 2010

crisis had some negative consequences, the sector is on the path to recovery with all the stakeholders being engaged in promoting a client-centric approach in order to increase household incomes. Scaling up of some of the project approaches and innovations by SIDBI and its partners will significantly enhance the extent and quality of outcomes flowing from the project. NMSP's overall project achievement is therefore rated as satisfactory.

7. The PPA has identified a number of recommendations that IFAD, DFID, the Government of India, SIDBI and other players in the India microfinance sector might consider:
- (i) Microfinance plus services and needs-based financial products: While providing credit, it is important to also provide support to the clients (such as skill development training related to their income generating activities) for enhancing their livelihoods. The loan products offered must suit the livelihoods activities undertaken by the clients.
  - (ii) Women's empowerment: If used more effectively, the client centre meeting can be a good platform for discussing gender and women's empowerment issues. One possible way is for the MFIs to train one or two committed women from each centre as group facilitators.
  - (iii) Support to smaller MFIs in underserved regions: SIDBI needs to work with the Government of India and RBI to aim for an early enactment of the Microfinance Regulation and Development Bill as it is critical for smaller NGO-MFIs to become regulated entities in order to operate in these difficult areas. Certain synergies also need to be developed with the National Rural Livelihoods Mission to maximize impact.
  - (iv) Research and studies: There is a need to have high quality publications and dissemination strategies to widely share the good quality work being done and also to capture any early warning signals that may lead to crisis. Reliable and real-time data for the microfinance sector need to be available.
  - (v) Regulation and supervision: RBI is in the process of establishing a self-regulation organization and MFIs associations have an important role to play in monitoring effective implementation of codes of conduct, social performance and audit systems. SIDBI could also play a pivotal role in this area considering the leadership role it has played in the past.

Income generating activities by clients of Grameen Financial Services Private Ltd. In Karnataka.

*IFAD/Oanh Nguyen*



# Republic of India

## National Microfinance Support Programme

### Project Performance Assessment

#### I. Objectives, methodology and process

1. **Background.** Project performance assessments (PPAs), conducted by the Independent Office of Evaluation of IFAD (IOE), are project-level evaluations that are undertaken on a selected<sup>1</sup> number of projects for which project completion reports (PCRs) have been validated<sup>2</sup> by IOE and include focused field visits. PPAs are not expected to investigate all activities financed under projects/programmes or to undertake in-depth impact assessments, but rather to fill major information gaps, inconsistencies and analytical weaknesses of PCRs and further validate the explanations, conclusions and lessons presented in PCRs. Another purpose of PPAs is to shed light on selected features of project/programme implementation history not adequately analysed in PCRs, hence contributing to learning and accountability. Given that India is a large country of strategic importance for IFAD, and that there were major changes which occurred in the microfinance sector after the completion of the project, the National Microfinance Support Programme (NMSP) in India has been selected for a PPA.
2. **Objective.** The main objectives of this PPA are to: (i) assess the results of the project; and (ii) generate findings and recommendations for the design and implementation of ongoing and future operations in India. Due to time and budget constraints, the PPA did not investigate the full spectrum of project activities and achievements. It gathered additional evidence only on the major information gaps of the PCR and issues deserving further investigation.
3. **Methodology.** The PPA relied on the extensive desk review of available documents undertaken for the preparation of the PCR.<sup>3</sup> These included the PCR (issued in March 2010), the impact study, the mid-term review, the various supervision reports and the appraisal report. The country programme evaluation of India, undertaken by IOE in 2009 was also consulted to gain an independent perspective about the project performance up to early 2009. The PPA also reviewed relevant reports from different research institutions to get an understanding about the development of the microfinance sector in India in recent years after the completion of the project. During the field work, primary data was collected to verify available information and reach an independent assessment of project performance. Given the time and resources available, no quantitative survey was undertaken. A number of qualitative evaluation methods such as individual interviews, focus group discussions, case studies of successful enterprises, direct observation of microfinance institution (MFI) centre meetings, and direct observation of livelihood activities of the clients were used.<sup>4</sup>
4. The PPA followed key methodological fundamentals stipulated in the IOE Evaluation Manual<sup>5</sup> and the guidelines for PPAs. A six-point rating system<sup>6</sup> was applied to all evaluation criteria, as described in annexes 4 and 5.

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<sup>1</sup> The selection criteria for PPA are not mutually exclusive: (i) synergies with forthcoming or ongoing IOE evaluations (e.g. country programme or corporate-level evaluations); (ii) major information gaps in project completion reports; (iii) novel approaches; and (iv) geographic balance.

<sup>2</sup> The project completion report validation (PCRv) performs the following functions: (i) independent verification of the analytical quality of the PCR; (ii) independent assessment of project performance and results through desk review; (iii) extrapolation of key substantive findings and lessons learned for further synthesis and systemization exercises; (iv) identification of recommendations for future projects/programmes; and (v) formulating recommendations for strengthening further PCRs.

<sup>3</sup> See annex 7. A copy of the PCRv on NMSP is available upon request.

<sup>4</sup> See annex 6 for a list of key persons met during the country visit.

<sup>5</sup> [www.ifad.org/evaluation/process\\_methodology/index.htm](http://www.ifad.org/evaluation/process_methodology/index.htm).

<sup>6</sup> 6 – highly satisfactory; 5 – satisfactory; 4 – moderately satisfactory; 3 – moderately unsatisfactory; 2 – unsatisfactory; and 1 – highly unsatisfactory.

5. **Process.** The PCRV of NMSP was finalized by IOE in September-October 2012 and shared with the Asia and the Pacific Division of IFAD (APR) for comment. The PPA mission<sup>7</sup> was undertaken from 31 October to 14 November 2012 in close cooperation with the Government of India, the Small Industries Development Bank of India (SIDBI) and IFAD Country Office. The mission included interactions with officials of the Reserve Bank of India (RBI) (the regulator), SIDBI (the project implementing agency), the United Kingdom Department for International Development (DFID) (the project cofinancier), the microfinance industry association Sa-dhan, beneficiaries and other key informants. Given the national nature of the project, care was taken to ensure that field visits were undertaken to rural areas of both relatively well-served and under-served states. The mission visited six MFIs in five states, observed their centre meetings, held focus group discussions with their clients, visited some of the income generating activities of the clients, and had extensive discussions with MFI chief executives and staff, as well as SIDBI officials in the states. In West Bengal and Karnataka, state MFI association meetings were also held. At the end of the mission, a wrap-up meeting was held with SIDBI in Lucknow to share preliminary findings. Another debriefing was also organized with the Ministry of Finance in Delhi.
6. The draft PPA report was sent to the IOE internal peer review process for quality assurance and subsequently shared with APR and the government for comments before being finalized and published.

## II. The project

### A. The project context

7. **Country context.** India has a land area of 3.28 million km<sup>2</sup>, with 28 states, seven union territories and 7,517 km of coastline. Its most striking feature is its diversity, with a population approaching 1.2 billion composed of several ethnic groups, speaking more than 1,000 languages, identifying themselves in more than 5,400 castes, following six major religions and living in totally different agro-ecological zones. India has 33 per cent of the world's poor, with 41.6 per cent of its population living below US\$1.25 per day. Despite recent economic growth, poverty levels have not been reduced at the same pace.
8. The microfinance sector in India was at a nascent stage at the time of the launch of NMSP in 2002. Despite a large formal banking network in the country, the poor had limited access to financial services. Poor women had even less access due to restricted mobility, social norms and lack of asset ownership. The poor remained overwhelmingly dependant on the informal sector, principally traders, moneylenders and landlords, for their credit needs. A further challenge was the uneven geographical spread. Development of the microfinance sector was heavily concentrated in the southern states of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala where strong, experienced non-governmental organizations (NGOs)/MFIs were to be found. There was a dearth of NGOs/MFIs in the northern and eastern regions, which included some of the poorest states, such as Uttar Pradesh, Bihar and Orissa, where the need for microfinance was the greatest. There was no regulatory framework for NGOs/MFIs and this was a major concern to the formal financial institutions (FFIs) in their involvement in microfinance.
9. SIDBI has been one of the major actors in microfinance development in India. In recognition of the need for a vibrant pro-poor credit delivery system and of its mandate to serve small-scale industries including the microenterprise sector, SIDBI launched its microcredit programme in 1994 to provide soft loan assistance to accredited NGOs for on-lending to the poor, particularly women. SIDBI established the SIDBI Foundation for Micro Credit (SFMC) in November 1998, with an initial

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<sup>7</sup> The PPA mission consisted of Oanh Nguyen, IOE lead evaluator, and CS Reddy, IOE consultant. Pamidi Kotaiah, IOE consultant and senior advisor for this evaluation participated in the wrap-up meeting at the end of the mission.

contribution of INR 1 billion, in order to develop a niche market for its services and intensify its efforts in the development of the microfinance sector. It had the most flexible package of assistance. Unlike most apex development finance institutions, it did not stipulate a cap on on-lending rates, a prerequisite for retail MFIs to attain institutional financial sustainability. Annex 8 provides more details on the different phases of SIDBI's microfinance programme, from 1994 to the present (i.e. before, during and after the project period).

10. The microfinance sector in India has changed significantly during the last decade. It has evolved from informal origins to more formal structures and is now in the process of being mainstreamed into the formal financial system. Overall, microfinance in India has 'gone to scale' as a sector, with client outreach touching 31.8 million and a loan outstanding of INR 216 billion in fiscal year 2011. However, in terms of taking financial inclusion to the needy, there is still a long way to go as there is a huge demand-supply gap. Information and communication technology, particularly innovative mobile technology applications, are playing an increasingly important role in reducing transaction costs and including people in banking processes. The sector is rapidly evolving beyond microfinance in addressing the needs of agriculture and rural enterprises, providing financial services to facilitate value chains and post-harvest value addition, and offering a variety of insurance products.
11. The Indian microfinance sector has two major operating models: Self-help group (SHG) – Bank linkage programme and MFIs lending to either individuals or groups. The 1990s can be considered as the exploratory phase of the microfinance sector in India. The first decade of the 21<sup>st</sup> century can be termed as the 'growth' phase. By March 2009, the microfinance client outreach was 87 million and loan outstanding reached INR 334 billion, out of which the MFI model accounted for 26 million with a loan outstanding of INR 117 billion. During the growth phase, there was limited focus on client protection and effective implementation of MFIs' codes of conduct, and regulatory and supervisory systems were not fully developed. This led to 'overheating', particularly in the state of Andhra Pradesh, and MFIs were alleged to have been involved in multiple lending, charging high rates of interest and to have engaged in unethical loan recovery practices. Around the same time, one of the largest for-profit MFI, SKS Microfinance, mobilized funds from the market through the first of its kind initial public offering which was considered highly successful.
12. Though a microfinance bill was introduced in the Indian parliament in 2007, it has not yet been adopted into law. The regulatory vacuum coupled with an ineffective self-regulatory system and limited attention to client protection forced the Government of Andhra Pradesh, a major state with significant MFI outreach, to introduce a microfinance ordinance in October 2010, literally bringing the entire MFI activity in the state to a standstill. This led to a major crisis in India's microfinance sector as portfolio at risk (PAR) over 30 days reached nearly 24 per cent,<sup>8</sup> adversely affecting the global equity investment climate.
13. However, this crisis provided an opportunity for the much needed client-centric reforms in the sector. Though the Andhra Pradesh contagion effect was minimized though a number of measures taken by the sector players, it could not be completely eliminated. The crisis resulted in the drying up of loan funds for MFIs from the FFIs, including SIDBI. This resulted in a nearly 16 per cent reduction in client outreach and a 3 per cent reduction in loan outstanding; without the crisis there should have been a 15 per cent to 20 per cent increase going by the trends from previous years.
14. **Project overview.** The NMSP loan agreement was signed on 18 February 2002 between IFAD and SIDBI, with a guarantee provided by the Republic of India, the first of its kind in India where IFAD has extended direct funding to an implementing

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<sup>8</sup> Micro-Credit Ratings International Limited (M-CRIL) Microfinance Review 2012, November 2012.

agency. The credit component of NMSP was carried out by SIDBI through partnering with MFIs and FFIs. The design also allowed for a model where non-governmental organizations, with the assistance of NMSP, had the possibility to be transformed into MFIs. NMSP was financed by an IFAD loan of SDR 16.35 million (around US\$22.0 million) and DFID grant funding of about US\$23.5 million (for capacity building and equity support). SIDBI's contribution was US\$88.5 million. The total programme cost was US\$134 million. The programme was implemented during a period of seven years, with a loan effective date of 1 April 2002 and completion date of 30 June 2009. SFMC was responsible for the planning, coordinating and monitoring programme activities at the national level.

15. **Project objectives.** The overall goal of the programme was to expand the horizontal and vertical outreach of microfinance institutions and programmes, and to mainstream them in terms of their access to resources available in the financial sector so as to enhance the access of the poor to microfinance services. The purpose of the programme was: (i) to contribute to the development of a more formal, extensive and effective microfinance sector on a national scale that serves poor women and men; and (ii) to assist in the evolution of an appropriate enabling environment for the development of sustainable finance institutions.
16. The programme logframe identified five outputs, which in the view of this evaluation should be considered specific objectives: (i) SFMC becomes a substantial, capable, efficient and financially viable operation; (ii) SFMC partner microfinance programmes significantly increase scale, outreach and sustainability, with an appropriate legal basis to conduct financial services; (iii) a selected number of FFIs initiate/consolidate sustainable microfinance services (FFIs include urban cooperative banks, regional rural banks, non-bank finance companies, commercial banks, local area banks, etc.); (iv) capacity of training and service providers are enhanced and widely available to SFMC clients and potential clients; and (v) positive influence on the policy environment for microfinance.
17. **Project components and costs.** The programme consisted of the following three components:
  - a. Capacity building of the microfinance sector: This included capacity building of the SFMC, capacity building of the MFIs (through three sub-components: technical assistance and training; operating cost support; and mentoring support), equity investment in the MFIs, capacity building of the FFIs and capacity building of capacity builders/service providers.
  - b. Credit funds for microfinance programmes: The programme would provide credit funds to the SFMC to relend funds to eligible MFIs for on-lending to SHGs and other retail level partner institutions; or through direct lending. SFMC would also provide credit funds to FFIs for on-lending to MFIs/SHGs and other partner institutions, or for direct lending. It was expected that this segment of the market, which could not be addressed directly by the SFMC, would be served through these FFIs.
  - c. Policy, advocacy and action research: The programme would promote an annual, high level forum to discuss key issues in microfinance, to examine new innovations, and to compare Indian achievements to state-of-the-art practices elsewhere. The programme would also support policy research studies, international exposure visits, action research studies and pilot testing of new products and services developed by action research. Similarly, MFI networks would be supported by emphasizing the development of a self-regulatory mechanism in the absence of any central bank regulation for the MFI sector. Support would be provided to contract top quality, socio-economic research institutions to undertake ongoing impact assessment.



18. The following table shows the costs and the financing plan for each component. The availability of grant funds from DFID provided the resources to support the essential task of capacity building. Overall, although IFAD financed only around 16.4 per cent of the total programme cost (20.3 per cent of the credit funds component), IFAD's long term loan funds were able to underpin the long-term debt capitalization of SFMC, making it easy to mobilize funds in the financial market to on-lend to MFIs.

Table 1  
Project financing plan (US\$ million)

Components	IFAD amount	SIDBI amount	DFID amount	Total amount	% of total project costs
Capacity building of the microfinance sector	-	2.3	20.3	22.6	16.9%
Credit funds for microfinance programmes	22.0	86.2	-	108.2	80.7%
Policy, advocacy and action research	-	-	3.2	3.2	2.4%
Total disbursement	22.0	88.5	23.5	134.0	100%

Source: President's Report (2000).

19. **Geographical coverage and target population.** NMSP coverage was nationwide and implemented in two phases under the flexible lending mechanism (FLM). The FLM allowed for a thorough testing and review of programme activities during the first three years of the programme before entering the second phase. The programme also adopted a flexible and demand-driven approach whereby the participating MFIs and FFIs determined their own priorities, and with some external assistance, acquired the resources needed for their effective implementation. The target group consisted of all strata of the poor in need of microfinance. The programme financed both rural and urban poor, women and men. However, IFAD's financing was restricted to poor households in rural and semi-rural areas.
20. **Changes during implementation.** There were two loan amendments undertaken in 2006 and 2008. The first one focused on changing the project years (PY) represented in phases I and II.<sup>9</sup> It also requested SIDBI, IFAD and the United Nations Office for Project Services (UNOPS) (cooperating institution) to jointly carry out a review of programme implementation. The second loan amendment dealt with, among other minor issues, the annual work plans, budget and procurement plans, stressing that the lead programme agency prepare draft annual work plans and budgets for each project year.

## B. Project implementation

21. At project design, a comprehensive logframe and a table of quantitative inputs, targets and key programme factors were developed. The achievement of programme outputs significantly surpassed almost all the appraisal estimates, as can be seen in table 2 below.

<sup>9</sup> The president's report defined Phase I as the first three years of the project. As of the loan amendment, Phase I represented the period commencing PY1 and ending in PY2. Phase II corresponded to the period commencing PY3 and ending on the project completion date.

Table 2

**Performance indicators at project completion compared with targets at appraisal**

<i>Selected indicators</i>	<i>Targets at appraisal</i>	<i>Actual achievements</i>	<i>Percentage of achievement</i>
Number of beneficiaries	1 260 000	6 600 000	524%
Percentage of women beneficiaries	70%	95%	136%
Percentage of poor beneficiaries	80%	-	-
Loan outstanding (in million INR)	6 160	21 368.9	347%
Number of MFIs supported	90	131	146%
Number of MFIs in underserved states	-	73	-
Number of FFIs supported	10	4	40%
Loan outstanding in underserved states (in million INR)	-	5 650	-
Percentage of loan outstanding in underserved states over total loan outstanding	-	26%	
Number of MFIs that reached level 4 sustainability	3	19	633%
Number of MFIs that reached level 3 sustainability	25	37	148%

*Source:* Compiled by IOE based on the president's report and the project completion report as well as data provided by SIDBI during the mission.

22. The following paragraphs provide a brief discussion of the main activities and results achieved.
23. **Capacity building of the microfinance sector.** This component was mainly financed by DFID grant funds.<sup>10</sup> To scale up microfinance initiatives at a fast pace, a special effort was required for capacity building of MFIs. SIDBI provided needs-based capacity building support in the form of grants to the partner MFIs in the initial years, to enable them to expand their operations, and cover their managerial, administrative and operational costs. Technical support was also provided in order to help the MFIs achieve self-sufficiency in due course. The technical assistance was directed at helping the MFIs strengthen their microfinance programmes through inputs such as human resource development, development of management information systems (MIS), effective financial and general management, training, efficient monitoring and control systems, etc. Operational support was provided to the MFIs to meet part of their operational deficit arising due to expansion of their programmes.
24. Realizing the imperative need for having professional management in the MFIs, SIDBI provided support for the salary of young professionals recruited by partner MFIs from premier management and technical institutions, under its Young Professionals' Programme. NMSP strengthened the human resources of MFIs by providing a steady supply of trained and professionally qualified manpower from reputed management institutions to build expertise in microfinance.
25. In order to strengthen the supply side of trained manpower, SIDBI has provided support to premier management institutes for courseware development on an

<sup>10</sup> Apart from some equity financing funds that were provided by SIDBI, all capacity building activities were funded by DFID.

elective course in microfinance. The faculty and resource persons from selected institutions have been regularly sponsored for international exposure visits and training programmes. In addition, SIDBI has also sponsored staff of MFIs, consultants and service providers for short training programmes in various areas of microfinance. A number of customized training programmes/workshops on specific areas of microfinance were also conducted by reputable training institutions and technical service providers for the field and managerial staff of MFIs. SIDBI supported the emergence of capacity building institutions to train the MFIs. Smaller MFIs in underserved regions of India were also proactively supported through a number of initiatives.

26. As of March 2009, the total amount of capacity building grants sanctioned by SIDBI reached INR 900 million, out of which INR 670.4 million was for the MFIs, and the rest was for other initiatives as mentioned above, which also aimed at benefiting the MFIs.
27. High debt-to-equity ratio was one of the major weaknesses of the MFIs. To help address this, SIDBI has provided equity capital support. As of March 2009, the total amount of equity support sanctioned by SIDBI was INR 398.9 million.
28. By the end of the project, 96 per cent of the funds (grants from DFID) were disbursed.
29. **Credit funds for microfinance programmes.** SIDBI was the first apex institution to support the MFI lending route to deliver microfinance services, which today is a major channel for reaching out to the poor and financially excluded. SIDBI introduced several innovative financial products to suit the emerging needs of MFIs, including transformation loans, subordinated debt and term loans with flexible terms and conditions. SIDBI lending to MFIs, based on sound rating and loan appraisal processes, triggered other FFI lending to MFIs, which has now become a major source of funds for MFIs in India. SIDBI supported tier 2 institutions (for example, FWWB [now Ananya], RGVN and Trust Microfin) to reach out to smaller MFIs, particularly in underserved regions of India. SIDBI's strategic focus has in recent years shifted from a 'MFI-focused' to a 'client-centric' approach promoting 'responsible microfinance' resulting in greater focus on the lower segments of society in the underserved states.
30. Under NMSP, SIDBI has taken several proactive steps to increase the flow of assistance to hitherto underserved and less served states for financial inclusion and poverty alleviation. The major steps taken in this regard included replication of successful models in such states, incubation of start-up institutions through experienced service providers, and identifying, creating and developing umbrella NGOs, which also finance MFIs. In fiscal year 2009, the bank opened seven specialized microfinance branches across the country.
31. SIDBI's loan outstanding to MFIs reached INR 21.4 billion, which is more than three times the estimated loan funds under the programme. More importantly, SIDBI became the institution leading the way in lending to MFIs, based on an independent credit rating. Most FFIs lent to those MFIs that had already received a loan from SIDBI.
32. **Policy, advocacy and action research.** NMSP supported the development of rating agencies, the focus on social performance management, improved governance, transparency and accountability systems, as well as codes of conduct and third party assessments of effective implementation of codes of conduct. All potential MFI borrowers were required by SFMC to undertake a rigorous rating exercise with a specialized rating agency and this contributed to promoting transparency in the microfinance industry. SFMC pioneered the idea of a lenders' forum and supported the establishment of credit bureaus for MFIs to share credit information on their clients. SFMC made significant and consistent efforts (including

through annual microfinance conferences) to promote an effective regulatory and supervisory framework for MFIs to become sustainable and to ensure a client-centric approach.

### **III. Review of findings**

#### **A. Project performance**

##### **Relevance**

33. **Relevance of objectives.** The overall project goal of expanding MFI outreach was in line with the policies of the Republic of India and the needs of the poor. Since the 1980s, the government had made concerted efforts to provide financial services to the poor through the FFIs. Yet there has been a significant gap in providing access to financial services to poor households. The policy framework also envisaged the critical need for growth of new generation financial institutions to bridge this gap. The President Report of NMSP (2000) also pointed out an unmet demand for microfinance services, especially among the poor and vulnerable groups in the country.
34. The objectives of NMSP were also relevant to the IFAD's country strategic opportunities papers (COSOP) for India. The first India COSOP was issued in 2001. This COSOP reflected the intervention approaches that had evolved in the late 1980s and defined IFAD's role as a catalyst in rural poverty alleviation in India. One of the main strategic thrusts proposed in the 2001 COSOP was to improve financial services to the poor. The following COSOP, issued in 2005, reaffirmed the key strategic thrusts of the 2001 COSOP. The collaboration with DFID in NMSP responded to the emphasis in both COSOPs on the need for engaging with key bilateral and multilateral donors. NMSP was also relevant to the IFAD rural finance policy. In line with this policy, the project aimed at strengthening the capacity of rural financial institutions, building rural financial infrastructures, enhancing institutional sustainability with outreach to the poor, and fostering a conducive policy and regulatory environment.
35. **Relevance of design.** Overall, the project strategy was appropriate for achieving the main objectives, and it remained appropriate throughout project implementation. The project focused on building institutional capacity of MFIs, providing loan products to MFIs, and facilitating a conducive policy framework for scaling up. The projects introduced new, improved financial products and offered technical assistance and training to the institutions willing to explore microfinance as a viable new service area to reach a higher number of the target group. The component of policy advocacy and action research promoted a forum to discuss key issues in microfinance, to examine new innovations, and to compare Indian achievements to state-of-the-art practices elsewhere.
36. A key design strength of the project was the choice of SIDBI, an apex development bank, as implementing partner, and through that process enabling the MFIs to obtain linkages with FFIs. The project also followed an uncomplicated approach that allowed it to develop a sector of high demand in the country without incurring a large risk of failure due to a complex design. However, there were some missed opportunities in terms of investments in client education and skill development, as well as support for improvements in agricultural productivity and the livelihoods of beneficiaries. This will be discussed in more detail in the following sections.
37. Another shortcoming of the design was the fairly limited approach regarding the needs of the target group in the design phase. Even though the poor were included in the targeting, none of the project components were specifically designed to look at the needs of the poor and how to effectively reach out to them through MFIs. All components were focused on the institutional changes or policy reforms of the microfinance sector. During most of the first decade of the 21<sup>st</sup> century (project duration), SIDBI followed a 'MFI-centric' approach to propel exponential growth in

the sector. Only in 2009, towards the end of the project, was there a realization in SIDBI to follow a 'client-centric' approach as there were clear indications of neglect of client protection by the MFIs. The lack of client protection in the sector during those years was among the reasons leading to the microfinance crisis in 2010. In fact, back in 2005, the first microfinance crisis occurred when 52 MFI branches in one district of Andhra Pradesh were closed down by the district administration citing allegations of certain unfair practices by MFIs, such as multiple lending and following coercive loan recovery practices. Though all the sector players, including SFMC, were involved in managing the crisis, the real problems were not addressed.

38. The lack of strategic learning from experiences during implementation was another shortcoming. Throughout the project, there was inadequate attention to systematically documenting the lessons learned. There was very limited discussion about the major problems faced by the sector and the strategies to address those in any of the supervision mission reports or the PCR. Therefore, valuable lessons from the 2005-2006 microfinance crisis were not used as a basis to build a more responsible microfinance sector in India, leading to the major crisis in 2010.
39. Given all the above, the PPA rating for relevance is 5 (satisfactory).

### **Effectiveness**

40. The project logframe (as included in the project appraisal report) stated five project outputs, which as mentioned above should be identified as project objectives, and are therefore used as the means to assess project effectiveness in this section.
41. **Objective 1: SFMC becomes a substantial, capable, efficient and financially viable organization.** This objective was successfully met. Founded at the beginning of the project, towards project completion SFMC had become a substantial organization with experienced and well trained officers. Systems were in place for the identification of clients. The appraisal and monitoring systems were also reviewed and updated at periodic intervals. The substantiality of SFMC was demonstrated in its portfolio of 131 MFIs (as of March 2009), in the balance sheet size of about INR 21,370 million, loan portfolio of INR 21,000 million and profit of INR 450 million.<sup>11</sup> The following table provides more information on loan outstanding and client numbers of SFMC over the years.

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<sup>11</sup> As per the discussions that the PPA mission had with SFMC, until fiscal year 2010 SIDBI maintained a separate balance sheet for SFMC and the same was included in SIDBI's annual reports. However, during the post-crisis period, SIDBI made a decision not to have a separate balance sheet for SFMC and the specialized microfinance branches were also merged with the main SIDBI branches.

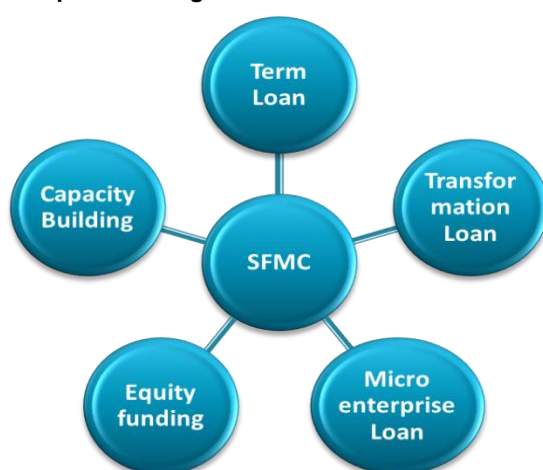
Table 3  
SIDBI's microfinance data

Years	Loan outstanding (INR million)	Cumulative number of beneficiaries (in millions)
2001-02	434.5	0.7
2002-03	549.2	0.9
2003-04	909.4	1.0
2004-05	1 993.6	1.5
2005-06	3 392.2	2.6
2006-07	5 484.4	3.3
2007-08	9 503.8	4.6
2008-09	21 368.9	6.6
2009-10	38 118.6	34.0
2010-11	30 497.8	31.0
2011-12	21 539.6	31.7

Source: SIDBI

42. The substantiality of SFMC is also shown in its broad range of products and services that support both MFI and sector development. They include financial products (transformation loan, risk fund to eligible institutions, equity), training, exposure visits, salary support, infrastructure development, conferences and various events under microfinance, rating tool development and rolling out, creation of a pool of technical service providers, systems improvement for MFIs (audit, professionalization of staff, business practices, governance, etc.), and incubation of start-up institutions. Recently, SFMC has also launched a new loan syndication product. The product range of SFMC is depicted in the following diagram; more details are included in annex 9.

Figure 1  
SFMC's product range



Source: SIDBI

43. With the fast growth of SFMC, in fiscal year 2009 SIDBI opened seven specialized microfinance branches (SFMC branches) across the country. However, following an internal restructuring of SIDBI, the board decided not to continue with the specialized microfinance branches and that responsibility has since been assigned to the staff of regular SIDBI branch offices.

44. **Objective 2: SFMC partner microfinance programmes significantly increase scale, outreach and sustainability with an appropriate legal basis to conduct financial services.** With regard to the legal basis, NMSP strongly supported the institutional development of MFIs through innovative approaches to facilitate transformation of not-for-profit MFIs into for-profit non-banking finance companies (NBFCs), in some cases following the route of an NGO transforming into a not-for-profit Section 25 company and eventually into an NBFC. Some NGO MFIs followed the route of transforming into a mutual benefit trust and finally emerging as NBFC. MFIs had to follow these rather complicated steps as there were several problems related to appropriate legal forms for microfinance and the tax laws of the country.
45. The scale of microfinance programmes by SFMC partners has increased significantly during the project. As can be seen in table 2, by March 2009 SFMC client outreach touched 6.6 million and its portfolio outstanding stood at around INR 21.37 billion, significantly surpassing the appraisal estimates. The portfolio outstanding continued to increase to a peak of INR 38.12 in March 2010. These quantitative achievements demonstrate the phenomenal success of NMSP.
46. However, during the financial year 2011-2012, following the crisis, the SFMC loan outstanding came down to INR 21.54 billion, and SFMC had to restructure INR 8.73 billion of loans, mostly for the MFIs based in Andhra Pradesh. The total non-performing assets (NPA) under the microcredit scheme of SIDBI stood at INR 386.7 million (1.8 per cent of the outstanding portfolio) in March 2012, compared to 0.07 per cent in March 2009. This raises some questions about the sustainability of the commercial MFIs (please refer to the section on sustainability for further information).
47. With regard to outreach in underserved states, progress was slow in the first few years, which was recognized in the various review missions between 2004–2007. However, SFMC took positive steps to implement the recommendations of these review missions and consistently increased the flow of assistance to underserved areas. SFMC's strategy included, *inter alia*, development of local MFIs, inducing successful microfinance operators in well-served states to expand operation in underserved states, incubating start-up MFIs, and providing a portfolio risk fund facility. At project completion, out of 131 MFIs supported by the project, 73 MFIs were in underserved states. This number increased to 76 MFIs by 31 March 2012, and the loan outstanding in underserved states accounted for more than 25 per cent of the total loan outstanding. However, as recognized in the joint review mission in September 2008, more investments were still required as the demand was very high.
48. With regard to sustainability of the MFI partners, the achievement at the end of the project was much higher than the target (please refer to table 2 and the section on sustainability for further information).
49. **Objective 3: A selected number of FFIs initiate/consolidate sustainable microfinance services.** SFMC played a leadership role in building the commercial microfinance sector in India. Various initiatives undertaken by SIDBI since the inception of NMSP such as rating, capacity building support to MFIs and service providers have led the FFIs, especially the new generation ones in the private sector and a number of private sector commercial banks to adopt bulk lending to MFIs as a major source of business. Many FFIs were willing to lend to MFIs that already had a loan from SFMC. Almost all the FFIs adopted the loan appraisal systems developed by SFMC and followed the performance standards. SIDBI also directly supported four FFIs.
50. The fact that less than 20 per cent of MFI loans came from SFMC demonstrated strong engagement of FFIs with the MFIs. All the MFIs also joined the lenders'

forums convened by SFMC and have since adopted certain sets of covenants that form a part of the lending conditions from FFIs to MFIs.

51. **Objective 4: Capacity of training and service providers enhanced and widely available to SFMC clients and potential clients.** Under the project, a number of capacity building service providers (such as Tata Dhan Academy, EDA Rural Systems, APMAS, SKDRDP, MicroSave, M2I) and rating agencies (M-Cril, Crisil and CARE) were developed and supported. A number of other service providers in the areas of financial management, MIS and technology solutions also emerged. Many courses were offered and many of the trainees have since been placed in leading MFIs/service providers, resulting in professionalization of the sector.
52. The PCR noted that around 400 people were provided with structured MFI courses of up to six months by the end of March 2008; of these, 80 per cent were subsequently employed as mid-range managers, consultants or trainers in the microfinance sector. Another 2,100 people benefited from structured microfinance courses of up to one month by the end of March 2008. There was however no available information on cost recovery by the service providers. Various in-country discussions by the PPA mission showed that the contribution of SFMC in this area was highly appreciated by all the stakeholders, including the MFIs.
53. **Objective 5: Positive influence on the policy environment for microfinance.** A large number of stakeholders such as senior officials of the Government of India and various state governments, RBI, etc., have all been sensitized to a large extent on various issues, such as legal frameworks and sustainable operations. The significant development of the sector has led to regulatory requirements and a bill on microfinance is under consideration in parliament. Sa-dhan and MFIN, two major MFI associations, have been regularly assisted in their policy advocacy role. SFMC has supported the annual policy conferences organized by Sa-dhan and Access Development Services where all major policy issues are discussed.
54. SFMC contributed in various ways to the formulation of RBI regulations for NBFC MFIs; for example, through its participation in the round table discussions with RBI together with other key sector players. It also played an important role in supporting the MFI associations in evolving common codes of conduct, developing credit bureaus, and promoting a lenders' forum to ensure a common set of terms and conditions that the lenders incorporate in the agreements with MFIs. All these measures have had a positive impact on the majority of the MFIs with regard to governance, management and client protection.
55. Based on the above assessment of the achievements concerning the project's five objectives, it can be concluded that the project's purpose of developing a more formal, extensive and effective microfinance sector on a national scale that serves poor women and men has been achieved in a satisfactory manner. SFMC has demonstrated that microfinance is a viable business area for SIDBI. The geographical coverage of the microfinance sector has increased significantly and there has been a much wider range of methodologies, products and institutions involved in the delivery of microfinance in India (when comparing the end of the programme to the beginning). There have also been appropriate legal structures available to the MFIs. With regard to the project's overall goal of expanding access to microfinance for the poor, the impact assessment study commissioned by SIDBI to assess the impact of NMSP has noted an overall improvement in the access and use of MFIs loan, as well as improvements in income related aspects. With microcredit support, clients have either started new or expanded existing enterprises which not only provided better employment opportunities but also increased enterprise income. However, with regard to poverty focus, although MFIs have generally served poor clientele, 'very poor' clients have still not been reached.



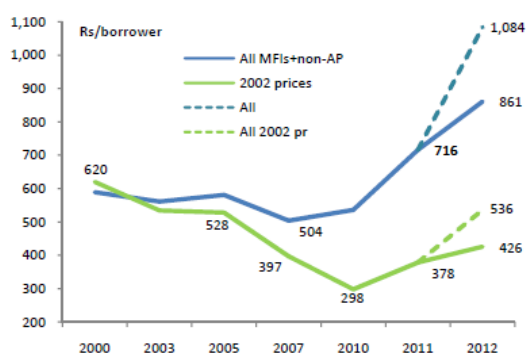
More information on the impact assessment study and its findings can be found in the section on rural poverty impact.

56. Overall, the PPA rating for effectiveness is 5 (satisfactory).

### Efficiency

57. The project came into effect in April 2002, 23 months after its approval by the IFAD Board in May 2000. This is longer than the average for the APR, which is 9.1 months. The project was completed according to the original plan, with IFAD funds fully utilized. In fact, the PCR pointed out that the total loan from IFAD was drawn by SIDBI 21 months before loan closure. On the other hand, the grant provided by DFID, as well as the funds provided by SIDBI, were disbursed at a slower pace. Most of the project activities were implemented without delay.
58. Concerning project management costs, the project cost table does not include provisions for this item, as this cost is embedded in the operating cost of SIDBI. Concerning the operating costs of MFIs, it is important to note that as the project is supporting medium and small MFIs to nurture the microfinance environment, economy of scale has been sacrificed in delivering microcredit. The operational costs of these small and medium MFIs are high, especially in reaching remote areas and underserved states.
59. The PCR states that NMSP had benefited 6.6 million by March 2009, well over the expected outreach of 1.26 million people. This brings the actual project cost per beneficiary to about US\$20.3,<sup>12</sup> which is much lower compared with a previous IFAD-funded project, Maharashtra Rural Credit Project, where the ex-post cost per beneficiary was US\$311.<sup>13</sup> However, it is also important to add the qualification that for projects where credit is a major component (such as this project where credit funds account for more than 80 per cent of total project cost), the cost per beneficiary is less a direct indicator of project efficiency.
60. A more appropriate indicator would be the cost per borrower incurred by the MFIs. According to data from M-CRIL's Microfinance Review 2012,<sup>14</sup> the cost incurred by the MFIs in servicing loan accounts, though increased significantly after the crisis in 2010 (see figure 2), is very low in comparison with the global benchmark of US\$85 as reported on the MIX Market. Even when compared with other Asian MFIs, the cost per borrower (INR 1,084 or around US\$20.3) amounts to just 34 per cent of the East Asian median of US\$61, and is also substantially lower than the median for low end MFIs internationally (US\$64).

Figure 2  
Cost per borrower



Source: M-CRIL's Microfinance Review 2012.

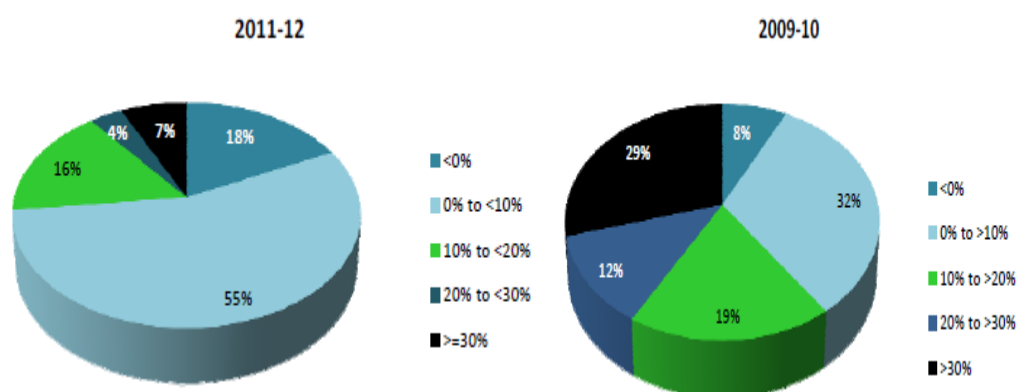
<sup>12</sup> The total project cost was US\$134 million and the actual beneficiaries were 6.6 million.

<sup>13</sup> The total project cost was US\$48.3 million and the actual beneficiaries were 155,374 (according to the India Country Programme Evaluation).

<sup>14</sup> Information from M-CRIL's Microfinance Review was used for the PPA report as this report includes data for the whole microfinance sector in India and provides a fair representation of the performance of SFMC-supported MFIs. Also the mission could not obtain complete data from SFMC for the whole period 2002 to 2012.

61. The project appraisal report did not include a calculation of the project overall economic rate of return, which is often the case for microfinance projects as this analysis would require too many assumptions. However, it did include an estimation of the return on equity for SFMC, which was projected to be 2.6 per cent in year 2 of the project, and 18 per cent in year 7. It also expected the MFIs to start earning a return on equity from years 4-5 and reach the level of 23 per cent by year 10. In this regard, the PCR did not provide data on the return on equity of the MFIs supported by the project. However, the following figure, extracted from the M-CRIL's Microfinance Review 2012, gave us some idea about the return on equity of Indian MFIs in general. According to this figure, only 11 per cent of the MFIs included in the sample earned more than a 20 per cent return on equity, while another 16 per cent earned 10-20 per cent return on equity. The M-CRIL's Microfinance Review 2012 noted that the situation "is, of course, a disappointing result for all the investors who piled into the Indian market over the past few years with expectations of super-normal returns. However, it is precisely these expectations that created the moral hazard leading to concerns about lending quality and client protection that was responsible for the ongoing crisis".

Figure 3  
Distribution of MFIs by return on equity



Source: M-CRIL's Microfinance Review 2012.

62. Efficiency by definition is a measure of how economically resources/inputs are converted into results at different levels, including outputs and impacts. In the case of NMSF, in terms of resources it has to be recognized that the contribution of IFAD was very small compared to the overall scale of the project, as well as the overall scale of operations of SFMC/SIDBI. At the time of appraisal, it was estimated that IFAD's loan amount would account for 20 per cent of the total SFMC loan outstanding to MFIs, but the actual number at completion was just 5.8 per cent. Moreover, SFMC loans accounted for less than 20 per cent of the total MFIs loan. This indicated the very high level of leverage that the project managed to achieve. The outputs and impact of the project for both the clients and the MFIs, (please refer to the next section for more information) was significant compared to the inputs invested, which demonstrated the efficiency of the project in pursuing its goals.
63. Considering all the positive and negative aspects as described above, the PPA rating for efficiency is 5 (satisfactory).

## B. Rural poverty impact

64. As mentioned in the section on relevance, NMSF was initially designed as a sectoral reform and institutional support intervention, with less focus on the project's contribution towards poverty elimination. Most data on impact found in the PCR was based on information collected from the Impact Assessment Study (IAS)

undertaken by an independent research institution.<sup>15</sup> Stage I (2001–2004) of the study involved a baseline study with a sample of 20 partner MFIs, while Stage II (2004–2007) added five additional MFIs to the study. The primary objective of the IAS was to find out how far the stated goal of NMSP was achieved. Although comprehensive, the study was issued in January 2008, 17 months before project completion.

65. Overall, the impact study has showed that microfinance services, on the whole, have proved to be an important component in the efforts towards poverty alleviation and women’s empowerment. The key findings of the IAS are highlighted below:

Box 1

**Key findings of the IAS**

Hypotheses that are fully supported by the IAS:

- There is an overall improvement in access to and use of MFI loans but not of other services (i.e. savings, insurance and non-financial services).
- Microfinance increases enterprise activity.
- Microfinance contributes to improvement in income related aspects.
- Microfinance builds capacity of vulnerable households to manage risks.

Hypotheses that are partially supported by the IAS:

- Microfinance is an effective strategy for extending financial services to the poor and disadvantaged groups not reached by the formal finance sector.
- Microfinance contributes to women empowerment.
- Microfinance brings about overall improvement in the socio-economic status of clients.
- Microfinance improves the terms, conditions and accessibility of other financial services.

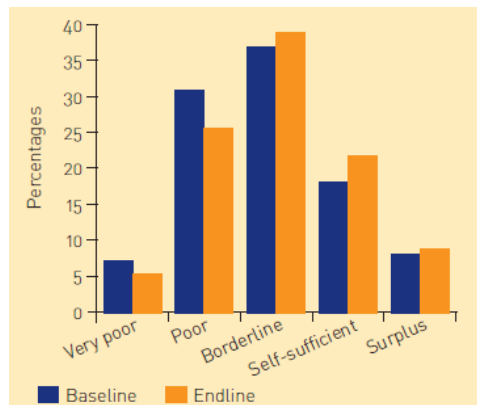
*Source: IAS (2008).*

66. With regard to the poverty focus of the project, the IAS noted that MFIs generally served poor clientele, but ‘very poor’ clients were still unreached. Classification by wealth rank revealed that the majority of clients belonged to the ‘borderline’ category (37 per cent), followed by ‘poor’ category (31 per cent). ‘Very poor’ clients had the least representation (7 per cent). The profile of group leaders showed that 70 per cent of them came from ‘borderline’, and 37 per cent from ‘non-poor’ categories in baseline statistics. The pattern remained almost the same in the end line statistics, with marginal change.
67. A limitation of the MFIs as observed in the IAS is their inability to provide adequate assistance to clients. Loan products offered did not match the requirements of the activities chosen by the clients. Only 37.5 per cent of the clients found the loan amount to be adequate. The others had to supplement the remaining amount required with their own funds, borrowing from formal institutions, moneylenders, friends or relatives. This partly explains why the ‘very poor’ clients were not reached. Another reason was the high cost of reaching the remote and underserved areas where many of the ‘very poor’ people live.
68. The following paragraphs discuss in more detail the impact of NMSP according to the five impact domains:
69. **Household income and assets.** It was reported in the IAS that average income of client households had increased from 69 per cent as compared to 31 per cent of non-client household across all wealth ranks. However, there are variations in the

<sup>15</sup> Agricultural Finance Corporation Ltd.

increase of household income, depending on the poverty level of MFI clients, the number and size of loans, the support received for managing microenterprise and also the support of different states. For example, 30 per cent of client households showed an increase of 200 per cent, and 49 per cent recorded an increase of 100 per cent in income levels. Overall, 79 per cent of the sampled households reported an increase in income. Figure 4 below shows the change in wealth ranks of the clients.

Figure 4  
Change in wealth ranks of the clients



Source: IAS (2008).

70. Acquisition of assets<sup>16</sup> was also assessed in the IAS. In the case of the very poor<sup>17</sup> category, the percentage of households reporting acquisition of assets increased from 32 per cent at baseline to 40 per cent at end line (no data for non-clients provided). However, for the overall sample, the percentage of households acquiring assets remained almost the same between the baseline and end line, which, according to the IAS, indicated that the loan amounts were used predominantly for working capital rather than acquisition of productive assets. The average value of assets increased from INR 23,170 to INR 25,323 between baseline and end line. However, it is also important to point out that in early 2007 in India the inflation rate, as measured by the wholesale price index, hovered around 6–8 per cent, which implies that there was no real growth in asset values.
71. Given all the above, the project's impact on household income and assets is rated as 5 (satisfactory).
72. **Human and social capital and empowerment.** The IAS reported that microcredit helped clients realize the need for providing education to their children. In the end line period, all children (below 14 years old) of 57 per cent of the households were enrolled in formal education. Sixty-five per cent of girls were enrolled (71 per cent for 'very poor' beneficiaries). With the increase in income, client households had also begun to access healthcare facilities and services. The coverage under health-related services went up from 5 per cent at baseline to 22.1 per cent at end line. The dependence of client households on costly informal sources, such as moneylenders, went down from 37 per cent to 24 per cent.
73. The IAS also reported that the coverage of clients under various training programmes went up from 23 per cent to 37 per cent between baseline and end line. Similarly, the coverage under the Enterprise Development Programme improved from 13.8 per cent at baseline to 20.2 per cent at the end line. However, while some MFIs were providing non-financial services, like specialized training pertaining to the client's occupation and/or enterprise development programme, a

<sup>16</sup> Acquisition of assets is an indication of capital formation as well as improvement in the living standards of the beneficiaries.

<sup>17</sup> The IAS defines "very poor" as a person who is homeless, or has a small hut, no land, 1–2 goats, basic utensils and low paid casual wage labour.

number of them had not taken adequate initiative in skill development of their clients, in spite of the demand for such services. In fact, focus group discussions undertaken in the context of the IAS indicated that there was unanimous demand from group members in all villages that skill development/ training was required for undertaking any income generating activity, and they felt that MFI loans alone would not help in improving livelihoods.

74. The focus group discussions which the PPA mission had with the beneficiaries also showed that the MFIs paid limited attention to client education. Though the loan officers attended the centre meetings, there was hardly any discussion about the loan products and repayment terms. There was limited understanding among the clients about the option to repay loans at their convenience (weekly, fortnightly or monthly). Though the new regulations and code of conduct have required the MFIs to focus on financial literacy and financial education for the members, due to the lack of adequate training for loan officers and time constraints, member education has not been given much priority. Only in those MFIs that have multiple services to offer (loan, savings, insurance, etc.), as well as those MFIs that have separate staff for social mobilization and group building, have there been some discussion (there are some good examples, as demonstrated in box 2 below). There is a strong desire among all the MFIs to focus on client education and to broaden their work to include some microenterprise orientation. Adequate resources seem to be an issue for going beyond the minimalist approach of microcredit.

Box 2

**BWDA – Empowerment of women self-help group (SHG) members**

The PPA mission visited the SHGs promoted by BWDA in Tamil Nadu. This MFI uses a holistic approach to address rural poverty among the households. It follows the SHG model to provide financial and other services to members. It has separate staff for social mobilization and most of them are women. Staff members that are involved in organizing groups are not involved in lending and recovery. In each of the SHG meetings, several issues related to nutrition, health and women are discussed by the members, facilitated by the field staff. There is a high level of awareness among members about their rights and entitlements. BWDA also provides need-base support for the microenterprises. SHGs have access to bank loans and many other government schemes. For the past couple of years, BWDA seems to have been promoting equal distribution of savings by SHG members, perhaps to create more demand for loans from the MFI.

*Source: PPA mission.*

75. The IAS reported that the group leaders occupied a better position in comparison to their fellow members regarding amount of microcredit availed. Another problem was arrogant behaviour of group leaders (i.e. unilateral decision-making) that had affected democracy within groups, which also led to dropouts and created weak groups with low social capital.
76. Overall, the impact on human and social capital and empowerment can be rated as 4 (moderately satisfactory).
77. **Food security and agricultural productivity.** The IAS reported that client households improved their food security after participation in the programme, whereby the proportion of households with 1 or 2 meals per day declined, and households that had three meals increased from 62 per cent at baseline to 79 per cent at end line. A similar change was also observed in the non-client households, though end line proportion of non-client households having three meals per day was lower than client households. In addition, the proportion of clients who had to cut consumption in times of shortage decreased, while among non-clients, this number increased as reported in the IAS.
78. There was no available information in the PCR and the supervision reports on the impact on agricultural productivity. Between the baseline and the end line, the percentage of enterprises supported by microcredit in various sectors compared to

the total enterprises increased marginally from 15.4 to 15.8 for agriculture, and 20.2 to 21.2 for animal husbandry, but declined for fisheries and non-farm activities. The IAS also noted that client households reporting non-agricultural activities as the main source of income increased for all categories of clients. The PPA mission had the same findings during various discussions with the beneficiaries in the field. Therefore, the impact of the project in terms of agricultural productivity was minimal.

79. Overall, the project's impact on food security and agricultural productivity is rated as 4 (moderately satisfactory).
80. **Natural resources and the environment (including climate change).** Potential environmental risks in the area of rural finance are well stated in IFAD's environmental and social assessment procedures (2008). The most important potential negative impact of the provision of credit in environmentally sensitive areas is that it may accelerate the degradation of natural resources when traditional practices lead to their overexploitation. In the long run, if credit is not accompanied by education about improved natural resources practices and incentives for their application, the effects on farmers' livelihoods may also be quite negative.
81. The 2008 supervision report mentioned that initiatives were not taken to create environmental awareness amongst MFIs and their clients. In response, the project undertook the environmental appraisal of SFMC lending activities. The appraisal covered 15 partner MFIs located in and around Chennai, Hyderabad, Bhubaneswar and Kolkata. The appraisal broadly covered identification of environmental risks associated with some of the most relevant activities funded through the SFMC microfinance route. It also developed a format for identifying risks and drew up some simple guidelines on risk mitigation.
82. The IAS and the PCR did not provide much information on the impact of the project on the area of natural resources and environment. Given the lack of evidence, the PPA did not assign a rating to this criterion (rating NA – Not Applicable).
83. **Institutions and policies.** The PCR stated that a sensitization campaign on microfinance was undertaken with the government and various stakeholders. It also mentioned that a bill on microfinance was under consideration in parliament, and that the project worked in collaboration with an Indian MFI network. SIDBI has also pushed for institutionalization of best practices including adoption of transparent, ethical and customer-friendly lending practices among MFIs. The project supported these initiatives through seminars, conferences, workshops and other interactive events.
84. As noted in the 2005 supervision report, the MFI policy arena had gone through a positive development since 2005. In the budget speech of the finance minister, it was declared that the way forward was to identify MFIs, rate and classify them, and empower them to intermediate between banks and beneficiaries. The finance minister also re-designated the Microfinance Development Fund to Microfinance Development and Equity Fund and increased the size of the fund.
85. The PPA mission noted several innovative initiatives of NMSP (and of SFMC in the post-project period) in the area of institutional development and policy advocacy. SFMC played a proactive role in the formulation and revision of the Microfinance Regulation and Development Bill, including making presentations to the Standing Committee on Finance of the parliament. SIDBI worked closely with RBI in formulating appropriate regulations for the orderly growth and development of the microfinance sector, particularly to ensure that the regulations would not stifle the growth of MFIs. SIDBI had regular interaction with the government's Department of Financial Services to ensure a supportive microfinance policy for the microfinance sector.

86. By convening the lenders' forum,<sup>18</sup> SIDBI was able to bring all the MFI lenders to address certain practices of MFIs that affect client protection and sustainability. SIDBI was also able to play a key role in the establishment of credit bureaus to ensure credit information would be shared among all MFIs. SIDBI took several initiatives to improve transparency and accountability by training the board members of MFIs and introducing code of conduct assessments of the MFIs.
87. Overall, considering the proactive role of SIDBI and the achievements of the project in this aspect, NMSP's impact on institutions and policies is rated as 5 (satisfactory).
88. In summary, based on data from the IAS, as well as information collected during the field visit, the PPA has rated the overall rural poverty impact of NMSP as 5 (satisfactory), given the significant benefits that have accrued to the target groups in terms of household income, food security, institutions and policies.

### **C. Other performance criteria**

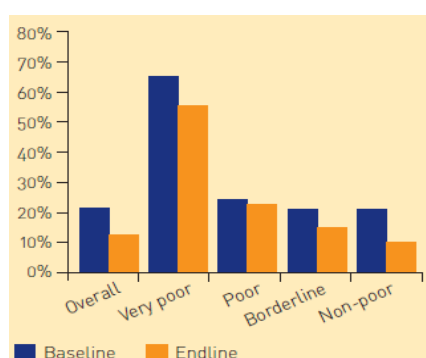
89. **Sustainability.** At appraisal, the project adopted Consultative Group to Assist the Poor's (CGAP) sustainability indicators<sup>19</sup> to assess the progress of the partner MFIs. The target, as set by the logframe in the President's report, was that out of the 90 partner MFIs, at least three MFIs (3 per cent of the total target) should have reached Level 4 sustainability. Furthermore, at least 25 MFIs (28 per cent of the total target) should be at Level 3 sustainability by project completion. The PCR states that at the end of the project, out of a total of 131 partner MFIs, 19 of them achieved Level 4 sustainability (15 per cent), and 37 achieved Level 3 sustainability (28 per cent), which is much higher than the target.
90. The PCR also indicated that the development of the microfinance sector and the concentration of the MFIs were, at project completion, skewed towards certain pockets in the country (i.e. mainly the southern region). Most of the MFIs operating in the southern states were generally self-sustaining. However, the new/start-up MFIs operating in the underserved states had taken longer to achieve sustainability due to the higher operational and transaction costs. The operating costs were expected to come down gradually with the scaling up of operations and availability of institutional support. Though the project surpassed its sustainability targets, it was still lagging behind on the sustainability of MFIs in underserved states.
91. It is important to note that though there has been increased access to microcredit and an increase in income, the IAS pointed out that the savings component of MFI programmes had experienced a setback. The number of clients with savings in the MFIs went from 84.4 per cent to 71.7 per cent between the baseline and end line. Figure 5 below shows the share of MFI/group savings in total savings. With limited savings, there was an overdependence of the MFIs on bulk loans from the banks, which has had implications for their sustainability.

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<sup>18</sup> Lenders' forum is a network of all the financial institutions that are engaged with the MFIs by way of providing equity support, loan funds and other financial products. The lenders' forum developed certain covenants that become a part of the loan agreements of all FFIs lending to MFIs.

<sup>19</sup> Level 3 sustainability: the institution covers its operational costs, loan losses, depreciation, inflation and actual costs of funds. Level 4 sustainability: covers Level 3 costs plus generates an adequate return to attract commercial capital.

Figure 5  
Share of MFI/group savings in total savings



Source: IAS (2008)

92. Following the completion of the project in June 2009, there have been many new developments in the microfinance sector in India. In October 2010, the Andhra Pradesh government issued an ordinance to control the operations of MFIs in the state, which has seriously affected the sustainability of all MFIs. This has resulted in nearly US\$2 billion loans becoming bad, and SIDBI has had to reschedule a significant portfolio related to the MFIs. Many MFIs are facing major challenges in accessing loans from FFIs and in maintaining portfolio quality.
93. Some of the major regulations by RBI that the NBFC-MFIs have to comply with include an interest rate cap of 26 per cent, a margin cap of 12 per cent and 85 per cent of the total portfolio being in loans to poor borrowers (based on the income criteria of INR 50,000 per annum for rural areas and INR 120,000 for urban areas). The total amount borrowed by a client cannot be more than INR 50,000 and the client cannot borrow from more than two MFIs. MFIs have been made responsible for following all these regulations and the lenders like SIDBI are expected to have adequate monitoring systems to ensure compliance.
94. Since the 2010 crisis, SIDBI has been collaborating with the Government of India, RBI, MFI associations and all the major lenders of the MFIs to address issues arising. With its steadfast focus on responsible microfinance, SIDBI is supporting the MFIs to re-engineer their business strategy to incorporate client education, particularly financial literacy, and other measures to comply with RBI regulations. SIDBI's collaborative approach has minimized the contagion effect of the Andhra Pradesh crisis, and now the sector is being re-engineered brick by brick following a client-centric approach and there are mild signs of recovery.
95. Overall, given the developments in the microfinance sector in India after the completion of the project and some of the political and regulatory risks in the post-crisis scenario, sustainability is rated as 4 (moderately satisfactory).
96. **Innovation and scaling up.** NMSP introduced a number of innovative features in terms of geographical coverage and the development of MFIs in underserved states. Another innovation of the project was the loan agreement itself whereby SIDBI was the direct borrower and implementer of the IFAD loan, which was guaranteed by the Government of India. This significantly enhanced SIDBI's ownership and facilitated the implementation of the project. Also, offering the transformation loan to NGOs to allow them to transform into NBFC MFIs was one of the most successful innovations, which provided a new alternative for NGOs to achieve self-sufficiency through microfinance operations. Offering subordinated debt and equity support to the MFIs were other product innovations that propelled growth in the sector. SFMC provided needs-based capacity building grants to MFIs to improve their institutional capacity and to effectively manage organizational growth. SIDBI also pioneered the concepts of capacity building needs assessment, capacity assessment rating, and portfolio and systems auditing. Capacity



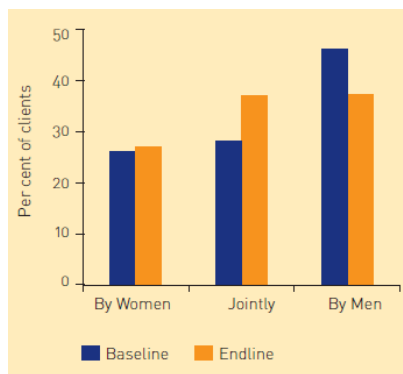
assessment rating has become a widely accepted route for the MFIs to showcase their performance and access funds on attractive terms.

97. To ensure the client-centric approach, SFMC introduced a number of innovations such as lenders' forums (in which all the FFIs lending to MFIs are members and have a common set of terms and conditions in their loan agreements), code of conduct assessment, credit bureaus and financial literacy for the MFI clients. SFMC also commissioned a number of independent studies on MFI transparency, client satisfaction and effective interest rates charged by the MFIs.
98. During the post-project phase and to address the funding crisis in the Indian microfinance sector, SFMC supported corporate debt restructuring, particularly for the MFIs based in Andhra Pradesh that were severely affected by the crisis. SFMC also restructured its loans showing a fair amount of flexibility.
99. The PCR noted that as part of its medium-term strategy, SIDBI was planning to explore possibilities of newer and innovative credit delivery channels with a view to identifying suitable intermediaries for channelling credit to the target clients. Accordingly, SIDBI would proactively provide loan support to MFIs to increase its outreach by going to newer areas and using innovative technological solutions to bring a higher degree of efficiency to their operations as well as achieve greater outreach.<sup>20</sup>
100. In terms of scaling up, throughout the discussion with SFMC and other partners during the field visit it was clear that many of the innovations initiated during the NMSP period have been scaled up under other programmes supported by the World Bank and DFID. In fact, DFID is currently financing the 'Poorest States Inclusive Growth Programme', with the total cost of GBP 65 million over seven years, to be implemented by SIDBI. The World Bank is also giving SIDBI a loan of US\$300 million to implement a programme aimed at scaling up microfinance services, particularly in underserved areas of the country, through introduction of innovative financial products and fostering transparency and responsible finance.
101. Given the above, innovation and scaling up is rated as 6 (highly satisfactory).
102. **Gender equality and women's empowerment.** Looking back into the history of the project implementation, it was noted by the mid-term review that the project was in strong need of external support to address gender concerns. This was due to the fact that internal capacity in this field was weak. The 2005 supervision report mentioned that little progress was made in the field of gender equality and women's empowerment, except from a project workshop on the topic that was held in 2003. Moreover, the report stated that mere targeting of women did not mean that the gender issues were being addressed. The supervision report from 2008 was more positive and brought up some cases where progress had occurred. As of March 2009, it was stated in the PCR that more than 95 per cent of the total target beneficiaries were women (target: 70 per cent).
103. The PCR noted that SIDBI was undertaking initiatives to increase gender awareness amongst the partner MFIs and clients. This included the organisation of several workshops on gender awareness, and sponsoring workshops and other events on the topic. Among other issues, emphasis at the workshops was on how microfinance could be recognized as a tool for women's empowerment and how it could further improve other social indicators like education and health.
104. Findings from the IAS showed trends of less dominance of men in the ownership of assets, and significant improvement in joint ownership of assets between the partners (see figure 6).

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<sup>20</sup> During the field visit, the PPA missions met with Cashpor MFI, The MFI uses mobile phone enabled technology (ATOM) to record all the transactions. The mobile technology is incorporated in both the credit and saving processes. The use of mobile phones is clearly a powerful venue for bringing the transaction closer to the customers.

Figure 6  
Ownership of assets



Source: IAS (2008).

105. The study also demonstrated improvements in terms of women's share in total household savings. Women clients had a higher share (30.5 per cent) in total household savings than the non-clients (28 per cent). The share of women's savings in total household savings increased significantly for the 'very poor' category from 72 per cent at baseline to 80 per cent at end line. It also indicated that the microfinance initiatives had strengthened women's decision making power. Women had a stronger voice in their children's education. Women in the Joint Liability Group as well as SHGs were socially empowered to take collective action against gender discrimination. Their social empowerment emerged as a result of their ownership of assets within the household, involvement in microenterprise management, contribution of income to the household, and involvement in decision making in the larger family setting. A number of women also become politically empowered.
106. There were however some missed opportunities. During the field visit of the PPA mission, it was observed that in most of the cases the women came to the centre meetings, sat there observing the loan officers entering all the transactions, made their payments, and then went away. There was hardly any discussion in the centre group meetings. The mission also observed that around 10-20 per cent of the members were absent from the group meetings as the women did not find it useful to come, and chose instead to send their repayment instalments through other women attending the meetings. While the loan officers did take attendance of those attending the meeting, this did not seem to be a critical criterion for obtaining new loans. There were cases of women who had attended some 300 centre meetings over a period of 5-6 years and still had gained little understanding about the importance of savings, responsible borrowing, interest rates charged by the MFIs, the viability of the economic activities they are involved in, the various government programmes available for the poor, and the rights and entitlements of women.
107. Given all the above, gender equality and women's empowerment is rated as 4 (moderately satisfactory).

#### D. Performance of partners

108. The PCR pointed out that the achievements of the project would not have been possible without the timely collaboration and close coordination of IFAD, DFID and SIDBI.
109. **IFAD.** IFAD got credit for its flexibility in directly lending to SIDBI (with the guarantee of the government), as this arrangement created a strong ownership of SDIBI as the implementing partner. Within the flexible lending mechanism, the project was designed to be implemented in two phases. After the first phase, IFAD conducted an inter-phase review in 2005 to examine the progress and look into

achievements before entering into the second phase. Therefore, the major concerns that arose in the early stage could be addressed in the design for the second phase. As part of IFAD's support during implementation, the loan agreement was amended in 2006 and 2008.

110. IFAD took over the responsibility for supervision from UNOPS in 2008, as a result of corporate policy on direct supervision. A joint review mission was organized with the participation of IFAD staff and consultants. Before taking over the direct supervision responsibility, an IFAD rural finance expert also participated in a supervision mission led by UNOPS in 2007. The supervision reports were of high quality, identifying many relevant issues for the project to follow up in order to further improve project performance.
111. A weakness of the project design was that the emphasis on poverty focus was not coupled with appropriate arrangement, therefore during implementation the poverty focus was not fully integrated in the SFMC and MFI operations.
112. IFAD's performance is rated as 5 (satisfactory).
113. **Government.** NMSP was the first nationwide IFAD intervention in the country where the borrower of the IFAD loan was not the government as usual, but rather SIDBI with the loan guaranteed by the government. The government therefore got credit for its flexibility. Also, the project would not have been a success without the enabling environment created by the government for the development of the microfinance sector. Following the crisis in 2010, the government also took quick action with RBI forming the Malegam Committee to study issues and concerns in the sector, and to draft the regulation for NBFC MFIs. However, the microfinance bill, though introduced in parliament in 2007, has still not been adopted into law.
114. The government, in the later part of the project, also supported NMSP through a portfolio risk fund. The fund aimed at providing loan assistance to MFIs in the underserved states. When the PCR was issued (March 2010), the government had disbursed 53 per cent of the funds (INR 800 million out of a total of INR 1,500 million). A microfinance equity fund was also created, to be managed by SIDBI.
115. The performance of SIDBI, as the direct borrower and project implementing agency, is also discussed in this section. There is an overwhelmingly positive opinion about SFMC from all the MFIs. Almost the entire credit for the development of MFIs in India is attributable to SFMC's proactive role and significant investments, both human and financial. Regarding monitoring and evaluation (M&E), SFMC had effective systems for identification of clients, appraisal and monitoring that were reviewed and updated at periodic intervals.
116. However, some stakeholders in the sector, whom the PPA mission met, felt that SIDBI could have been more proactive in preventing the crisis and minimizing its adverse effects. Discussions with MFI senior management revealed that though the overall opinion about SFMC was positive, there was a sense of anxiety about the inordinate delays in the sanction and release of loans to MFIs post crisis by all financial institutions, including SIDBI. This was further exacerbated by SIDBI's centralized decision making and more stringent loan 'terms and conditions', including the requirement of a personal guarantee by the MFI chief executive officers. MFIs had expressed concern about the lack of communication from the SIDBI branch offices about the status of their loan applications, and the likely date of the loan sanction and release. SIDBI however did not agree with this observation by these MFIs.
117. Overall, government's performance is rated as 5 (satisfactory).

## **E. Overall project achievement**

118. The PPA's rating for NMSP's overall achievement is 5 (satisfactory). Annex 1 gives a summary of the ratings.

### **Key points**

- The relevance, effectiveness and efficiency of the project are rated as satisfactory on the basis of its alignment to the government and IFAD strategies, and the needs of the rural poor, the level of achievements of its objectives and its level of leverage.
- The rural poverty impact is also rated as satisfactory, given the benefits that have accrued in terms of income, food security, and institutions and policies.
- Sustainability is rated as moderately satisfactory given the new developments and the risks in the sector after project completion. The project includes many innovative features, and some of those have been scaled up in other ongoing programmes of SIDBI with the World Bank and DFID.
- The performance of IFAD and the government were both rated as satisfactory, given their flexibility and support throughout the project. SIDBI played an active role and showed a high level of ownership.

## **IV. Conclusions and recommendations**

### **A. Conclusions**

119. Overall, the project did meet the main objective of expanding the horizontal and vertical outreach of microfinance institutions and programmes in India; and to mainstream them in terms of their access to resources available in the financial sector so as to enhance the access of the poor to microfinance services. The quantitative achievements of the project in terms of client outreach and loan outstanding significantly surpassed the original targets set at the time of appraisal (paragraphs 41-55). Perhaps, NMSP is one of the most leveraged projects for IFAD as its loan was only 5.8 per cent of the SIDBI's loan outstanding to MFIs (paragraph 62).
120. SIDBI played a pivotal role in institutional development of MFIs by providing a package of services which included capacity building, system development, infrastructure support, technology solutions and innovative loan products (paragraphs 23-25). SIDBI's lending to MFIs triggered a significant increase in financial flows from other FFIs to MFIs with the SFMC loan portfolio being less than 20 per cent of the total MFI loans in India (paragraphs 49-50). SIDBI played a proactive role in policy dialogue and consistently engaged with the Government of India, RBI and industry associations (paragraphs 85-86). There was an overwhelming appreciation for the sector building role played by SIDBI over a decade (paragraph 115).
121. Although the project was not designed to offer a specialized programme for facilitating microfinance services to the poorest clients, the stated overall goal of the project was to enhance the access of the poor to microfinance services and the target population included all strata of the poor. The poverty focus is present; however, special resources to develop facilities to create pathways for the poor to come out of extreme poverty through the help of microfinance were never built into the project design or implementation (paragraph 37). As was also noted in the PCR, the project found it difficult to deliver credit to the poorest due to high operational and administrative costs, as well as an inability to mobilize the required resources.
122. Though the achievement in terms of client outreach was significant, there was a lack of support by the project and the MFIs for the clients to improve their livelihoods. There was not much initiative in skill development for the clients, and there were limited investments in client education (paragraphs 73-74). A vast majority of the rural population in India depends on agriculture. As per its design, NMSP did not have any specific strategy to improve agriculture productivity (paragraph 78). In a microfinance programme of such a large scale, this was a missed opportunity as adequate attention to this area could have enhanced the

income and food security of the beneficiaries. The financial products offered were not always needs-based, i.e. suiting the livelihoods activities undertaken by the clients (paragraph 67).

123. Concerning gender, there was evidence of achievements in terms of social empowerment for women, including more ownership of assets, involvement in microenterprise management and stronger decision making power in the family. There were however some missed opportunities (paragraphs 104-106).
124. Efforts to reach the underserved states were slow at the beginning but more progress was made towards the end of the project. It is important to note that establishing Greenfield MFIs requires adequate financial resources and long-term technical support. In the period after the 2010 crisis, there was even more need for support in terms of capacity building for the MFIs, particularly the ones which were still in nascent stage in the underserved regions (paragraph 47).
125. During the life of the NMSP, there was inadequate attention to systematically documenting the lessons learned, particularly lessons of a strategic nature. There were several valuable lessons from the 2005-2006 microfinance crisis; however, those lessons were not used as the basis to build a more responsible microfinance sector in India, leading to the major crisis in October 2010 (after the completion of the project) (paragraph 38).
126. Following the 2010 crisis, some regulatory norms were issued by RBI. RBI has also been in the process of establishing a self-regulation organization with the Government of India, MFI representatives, MFI associations, National Bank for Agriculture and Rural Development and SIDBI as members. The mission observed that there have been some signs of recovery in the sector, though many MFIs are still facing challenges in accessing loans from FFIs and in maintaining portfolio quality (paragraphs 92-94).

## **B. Recommendations**

127. This section provides a number of recommendations that the government, IFAD, DFID, SIDBI and other players in the India microfinance sector might consider.
128. The MFIs (supported by SIDBI and other donors) should consider offering microfinance plus services and needs-based financial products (paragraph 122). While providing credit, it is important to also provide support to the clients' income generating activities for enhancing their livelihoods. More skill development training for the clients should be considered. Though mandated by the new regulatory norms, there is hardly any flexibility in the loan products of the MFIs and their recovery systems. The loan products need to be suited to the livelihood activities undertaken by the clients. This would require considerable investments for action research, product development and also financial education for the clients. Efforts should also be made to provide linkages for the clients with the various government schemes meant for the poor.
129. In order to further strengthen women's empowerment (paragraph 123), MFIs should consider ways and means to more effectively use the centre meetings. They may consider training one or two committed women for each centre as group facilitator to have a discussion after the loan officer leaves. The women could be encouraged to pay a small honorarium to the centre facilitator(s). Some of these women could emerge as real change agents who would create huge social capital in the communities.
130. There is a need for further support to the smaller MFIs in underserved regions as they have a very important role to play regarding the unreached (paragraph 124). This is also a way to enhance the poverty focus of microfinance programmes. Currently, SFMC is implementing the PSIG programme supported by DFID, which has the potential to support these MFIs. The India Microfinance Equity Fund supported by the Government of India is another opportunity. SIDBI needs to work

with the Government of India and RBI to aim for an early enactment of the Microfinance Regulation and Development Bill, as it is critical for these smaller NGO-MFIs to become regulated entities in order to operate in these difficult areas. Certain synergies also need to be developed with the National Rural Livelihoods Mission to maximize impact. In addition, on a related issue, the PPA mission observed a number of institutional models for the MFIs (including not-for-profit legal forms such as Section 25 company, and for-profit NBFCs) with some variations in their business models. In this regard, it may be useful to commission an independent study on key design considerations and institutional elements for an appropriate institutional model and business strategy for MFIs to serve their clients responsibly and to become sustainable.

131. Independent research and studies also need to be commissioned by sector players to understand various processes and the impact of microfinance. Given the general public perception about microfinance following the crisis, there is a need to have high quality publications and dissemination strategies to widely share the good quality work done and also to capture any early warning signals that may lead to crisis (paragraph 125). Reliable and real-time data for the microfinance sector need to be available. Functional forums at district, state and national levels need to be established.
132. There is still considerable work that needs to be done in the area of regulation and supervision (paragraph 126). As mentioned above, RBI is in the process of establishing a self-regulation organization, and MFI associations have an important role to play in monitoring effective implementation of codes of conduct, social performance and audit systems. SIDBI could also play a pivotal role in this area, considering the leadership role it has played in the past. The lenders' forum promoted by SIDBI has tremendous potential to become an effective platform to ensure responsible microfinance, particularly focusing on client protection, effective audits and use of credit bureaus, and developing needs-based products for the poor. All of this will set a stage for orderly growth of the sector in India to ensure universalization of microfinance services in the country.

## Rating comparison

<i>Criteria</i>	<i>IFAD-Programme Management Department rating<sup>a</sup></i>	<i>PPA rating<sup>a</sup></i>	<i>Rating disconnect</i>
<b>Project performance</b>			
Relevance	6	5	-1
Effectiveness	5	5	0
Efficiency	6	5	-1
<b>Project performance<sup>b</sup></b>	<b>6</b>	<b>5</b>	<b>-1</b>
<b>Rural poverty impact</b>			
Household income and assets	6	5	-1
Human and social capital and empowerment	5	4	-1
Food security and agricultural productivity	5	4	-1
Natural resources, environment and climate change	NA	NA	NA
Institutions and policies	4	5	1
<b>Rural poverty impact<sup>c</sup></b>	<b>5</b>	<b>5</b>	<b>0</b>
<b>Other performance criteria</b>			
Sustainability	4	4	0
Innovation and scaling up	6	6	0
Gender equality and women's empowerment	5	4	-1
<b>Overall project achievement<sup>d</sup></b>	<b>5</b>	<b>5</b>	<b>0</b>
<b>Performance of partners<sup>e</sup></b>			
IFAD	5	5	0
Government	5	5	0
<b>Average net disconnect</b>			<b>-0.42</b>

<sup>a</sup> Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory; n.p. = not provided; n.a. = not applicable.

<sup>b</sup> Arithmetic average of ratings for relevance, effectiveness and efficiency.

<sup>c</sup> This is not an average of ratings of individual impact domains.

<sup>d</sup> This is not an average of ratings of individual evaluation criteria but an overarching assessment of the project, drawing upon the rating for relevance, effectiveness, efficiency, rural poverty impact, sustainability, innovation and scaling up, and gender.

<sup>e</sup> The rating for partners' performance is not a component of the overall assessment ratings.

### Ratings of the PCR document

<i>Ratings of the PCR document quality</i>	<i>PMD rating</i>	<i>IOE PCRV rating</i>	<i>Net disconnect</i>
(a) Scope	3	3	0
(b) Quality (methods, data, participatory process)	4	3	-1
(c) Lessons	3	3	0
(d) Candour	4	4	0
Overall rating PCR document	NA	3	NA

(a) Scope: The document only partly follows the annotated outline in the IFAD's guidelines for project completion report. All annexes are missing.

(b) Quality: The PCR contains only very essential information. It is weak in its assessment of most project performance criteria. In some instances, the PCR is providing inconsistent figures (for example on page 12, the PCR states that the project benefited 6.4 million people while on page 17, the figure has increased to 6.6 million)

(c) Lessons: The lessons learned are very schematic, and they are in line with the whole document. However, a more in-depth reflection would have been needed.

(d) Candour: The tone of the report is overall positive. Some not so positive issues have been omitted or just briefly mentioned.

## Basic project data

			Approval (US\$ m)		Actual (US\$ m)	
Region	Asia and the Pacific	Total project costs	134.03			
Country	India	IFAD loan and percentage of total	21.96	16%		
Loan number	I-538-IN	Borrower (SIDBI)	88.52	66%		
Type of project (subsector)	Credit and financial services	Cofinancier 1: DFID (grants)	23.54	18%		
Financing type	IFAD initiated and cofinanced	Cofinancier 2				
Lending terms <sup>a</sup>	Highly concessional	Cofinancier 3				
Date of approval	04 May 2000	Cofinancier 4				
Date of loan signature	18 February 2002	Beneficiaries				
Date of effectiveness	01 April 2002	Other sources:				
Loan amendments	27 July 2006; and 8 August 2008	Number of beneficiaries (if appropriate, specify if direct or indirect)	1 260 000		6 600 000	
Loan closure extensions	None	Cooperating institution	UNOPS, followed by IFAD direct supervision from 2008			
Country programme managers	Shyam Khadka; Anshuman Saikia; Mattia Prayer Galletti; Nigel Brett (current CPM)	Loan closing date	31 December 2009			
Regional director(s)	Phrang Roy; Erik Martens, OIC <sup>b</sup> ; Thomas Elhaut; Honnae Kim (current Director)	Mid-term review	November-December 2003			
Project completion report reviewer	Katrin Aidnell Oanh Nguyen	IFAD loan disbursement at project completion (%)	100%			
Project completion report quality control panel	Fabrizio Felloni Ashwani Muthoo	Date of project completion report	March 2010			

Source: PCR, Mid-term review, Project and Programme Management System.

<sup>a</sup> There are four types of lending terms: (i) special loans on highly concessional terms, free of interest but bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 40 years, including a grace period of 10 years; (ii) loans on hardened terms, bearing a service charge of three fourths of one per cent (0.75%) per annum and having a maturity period of 20 years, including a grace period of 10 years; (iii) loans on intermediate terms, with a rate of interest per annum equivalent to 50% of the variable reference interest rate and a maturity period of 20 years, including a grace period of five years; (iv) loans on ordinary terms, with a rate of interest per annum equivalent to one hundred per cent (100%) of the variable reference interest rate, and a maturity period of 15-18 years, including a grace period of three years.

<sup>b</sup> OIC = Officer-in-charge.



## Terms of reference

### A. Background

1. The *Peer Review of IFAD's Office of Evaluation and Evaluation Function* conducted by the Evaluation Cooperation Group in 2010 recommended that the Independent Office of Evaluation of IFAD (IOE) transform its approach to project-level evaluation by undertaking project completion report validations (PCRVs) and, on a selective basis, project performance assessments (PPAs). PCRVs essentially consist of independent desk reviews of project completion reports (PCRs) and other available and relevant project documentation.<sup>1</sup> PPAs are undertaken on a selected<sup>2</sup> number of projects that have previously undergone a PCRV, and include focused field visits. PPAs are not expected to investigate all activities financed under projects/programmes or to undertake in-depth impact assessments, but rather to fill major information gaps, inconsistencies and analytical weaknesses of PCRs and further validate the explanations, conclusions and lessons presented in PCRs. Another purpose of PPAs is to shed light on selected features of project/programme implementation history not adequately analysed in PCRs, hence contributing to learning and accountability. In this regard, the National Microfinance Support Programme (NMSP) in India has been selected for PPA.

### B. The project

2. **Country context.** India has a land area of 3.28 million km<sup>2</sup>, with 28 states, seven union territories and 7,517 km of coastline. Its most striking feature is its diversity, with a population approaching 1.2 billion composed of several ethnic groups, speaking more than 1,000 languages, identifying themselves in more than 5,400 castes, following six major religions and living in totally different agro-ecological zones. India has 33 per cent of the world's poor, with 41.6 per cent of its population living below USD1.25 per day. Despite recent economic growth, poverty levels have not been reduced at the same pace.
3. Microfinance in India has "gone to scale" as a sector in attracting private-sector investment and equity. However, in terms of taking financial inclusion to the needy, there is a long way to go. Information and communication technology, particularly innovative mobile telephony applications, are playing an increasingly important role in reducing transaction costs and including people in banking processes. The sector is rapidly evolving beyond microfinance in addressing the needs of agriculture and rural enterprises, providing financial services to facilitate value chains and post-harvest value addition, and offering a variety of insurance products.
4. **Programme overview.** The programme loan agreement was signed on 18 February 2002 between IFAD and the Small Industries Development Bank of India (SIDBI)<sup>3</sup> with a guarantee provided by the Republic of India. The credit component of the programme was carried out by the SIDBI Foundation for Microcredit (SFMC) by partnering with microfinance institutions (MFI) and formal financial institutions (FFI). The design also allowed for a model where NGOs, with the assistance from NMSP, had the possibility to be transformed into MFIs. The

<sup>1</sup> The PCRV performs the following functions: (i) independent verification of the analytical quality of the PCR; (ii) independent assessment of project performance and results through desk review (including ratings); (iii) extrapolation of key substantive findings and lessons learned for further synthesis and systematization exercises; (iv) identification of recommendations for future projects/programmes; and (v) formulating recommendations for strengthening future PCRs. A copy of the PCRV on NMFSP is available upon request.

<sup>2</sup> The selection criteria for PPA are: (i) major information gaps, inconsistencies and analytical weaknesses in the PCR found by IOE during the validation process; (ii) innovative project approaches; (iii) need to build up an evidence base for future higher-plane evaluations; (iv) geographical balance; and (v) any disconnect between the ratings contained in the PCR and those generated by IOE during the validation process.

<sup>3</sup> SIDBI was established in April 1990, as a development financial institution for: (i) promotion; (ii) financing; (iii) development of industries in the small scale sector; and (iv) coordinating the functions of other institutions engaged in similar activities.

programme was financed by an IFAD loan of SDR 16.35 million (about US\$22.0 million) and DFID's grant funding of about US\$23.5 million (for capacity building and equity support). SIDBI's contribution was US\$88.5 million. The total programme cost was US\$134 million. The programme was implemented during a period of seven years, with a loan effective date of 1 April 2002 and completion date of 30 June 2009.

5. The overall goal of the programme was to expand the horizontal and vertical outreach of MFIs and programmes, and to mainstream them in terms of their access to resources available in the financial sector so as to enhance the access of the poor to microfinance services. The purpose of the programme was: (i) to contribute to the development of a more formal, extensive and effective microfinance sector on a national scale that serves poor women and men; and (ii) to assist in the evolution of an appropriate enabling environment for the development of sustainable MFIs.
6. The programme consisted of the following three components: (i) capacity building of microfinance sector (US\$22.6 million, or 16.9 per cent of total cost); (ii) credit funds for microfinance programmes (US\$108.2 million or 80.7 per cent of total cost); and (iii) policy, advocacy and action research (US\$3.2 million or 2.4 per cent of total cost).
7. NMSP coverage was nationwide and implemented in two phases under the flexible lending mechanism (FLM). The FLM allowed for a thorough testing and reviewing of the programme activities during the first three years of the programme before entering the second phase. The project also adopted a flexible and demand driven approach whereby the participating MFIs and FFIs determined their own priorities, and with some external assistance, acquired the resources needed for their effective implementation. The target group consisted of all strata of poor in need of microfinance. The project financed both rural and urban poor, men and women. However, IFAD's financing was restricted to poor households in rural and semi-rural areas.
8. There were two loan amendments undertaken in 2006 and 2008. The first one focused on changing the project years represented in Phase I and Phase II.<sup>4</sup> It also requested SIDBI, IFAD and United Nations Office for Project Services (cooperating institution) to jointly carry out a review of programme implementation. The second loan amendment dealt with, among other minor issues, the annual work plans, budget and procurement plans, stressing that the lead programme agency prepare draft annual work plans and budgets for each programme year.
9. **Recent changes in the microfinance sector in India:** The IFAD-funded NMFSP ended in the year 2009. In October 2010, the Government of Andhra Pradesh, a prominent state in the south of India, promulgated a law called the Andhra Pradesh Microfinance Regulation Bill, to rein in MFIs. The Andhra Pradesh MFI Regulation was brought in due to reported suicides by MFI borrowers and concerns expressed about over indebtedness of MFI borrowers due to multiple lending, coercive recovery practices and high interest rates. The new law made it almost impossible for the MFIs to operate in Andhra Pradesh resulting in losses to the tune of almost US\$1.5 billion. For almost two years, the MFIs have not been able to recover loans in Andhra Pradesh and are not able to provide new loans.
10. In response to the MFI crisis, the Reserve Bank of India (RBI) constituted a sub-committee of its Board of Directors in early 2011 to review the issues related to the MFI crisis, and to come up with appropriate recommendations for regulation and supervision of MFIs. The RBI sub-committee came up with a series of recommendations after wide-ranging consultations with all the major stakeholders

<sup>4</sup> The president's report defined Phase I as the first three years of the project. As of the loan amendment, Phase I was representing the period commencing PY1 and ending in PY2. Phase II corresponded to the period commencing PY 3 and ending on the project completion date.

in the sector. The RBI adopted most of the recommendations of the committee and in 2012 came up with various regulatory and supervisory norms for MFIs registered with RBI.

11. Sa-dhan and Microfinance Institutions Network, the two industry associations of the MFIs in India, came up with detailed codes of conduct to be followed by their members. Through a consultative process, the two major industry associations developed a unified code of conduct for the MFIs to ensure client protection, good governance in the MFIs, and to promote transparency and accountability.
12. IFAD's PPA of NMFSP is coming up at a time when there is significant change in the context, particularly the regulatory & supervisory system, and most of the MFIs supported by SIDBI are going through difficult times with almost all their net worth completely wiped out due to repayment problems and unwillingness of the financial institutions to lend to the MFIs perceived to be a high risk portfolio post- Andhra Pradesh crisis.

### C. Methodology

13. **Objectives.** The main objectives of this PPA are to (i) assess the results of the project, and (ii) generate findings and recommendations for the design and implementation of other IFAD-funded operations in India.
14. **Scope.** Due to the time and budget constraints, the PPA would not investigate the full spectrum of project activities and achievements. It would rather gather additional evidence only on the major information gaps of the PCR and issues deserving further investigation (see section below). The PPA will also put emphasis on further issues emerging during the PPA process.
15. **Evaluation criteria.** In line with the evaluation criteria outlined in the Evaluation Manual of IFAD (2009) and the additional evaluation criteria (2010),<sup>5</sup> and the IOE Guidelines for PCR and PPA (June 2012), the key evaluation criteria applied in this PPA would include:
  - a. **Relevance**, which is assessed both in terms of alignment of project objectives with country and IFAD policies for agriculture and rural development and the needs of the rural poor, as well as project design features geared to the achievement of project objectives.
  - b. **Effectiveness**, which measures the extent to which the project's immediate objectives were achieved, or are expected to be achieved, taking into account their relative importance.
  - c. **Efficiency**, which indicates how economically resources/inputs are converted into results.
  - d. **Rural poverty impact**, which is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions. Five impact domains are employed to generate a composite indication of rural poverty impact: household income and assets, human and social capital and empowerment, food security and agricultural productivity, natural resources, environment and climate change, and institutions and policies.
  - e. **Sustainability**, indicating the likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
  - f. **Pro-poor innovation and scaling up**, assessing the extent to which IFAD development interventions have introduced innovative approaches to rural poverty reduction and the extent to which these interventions have been (or are likely to be) scaled up by government, private sector and other agencies.

<sup>5</sup> Gender, climate change, and scaling up.

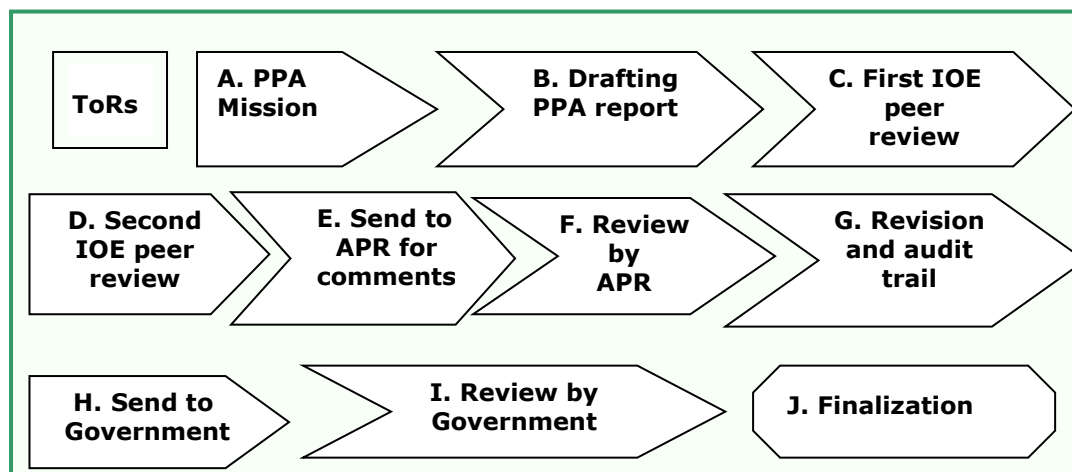
- g. **Gender equality and women’s empowerment.** This criterion is related to the relevance of design in terms of gender equality and women’s empowerment, the level of resources committed, and changes promoted by the project.
  - h. **IFAD and government performance.** This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. It also assesses the performance of individual partners against their expected role and responsibilities in the project life cycle.
16. **Data collection.** The initial findings would be retrieved from the PCRV. During the PPA mission, additional primary and secondary data will be collected to reach an independent assessment of the performance and results. Data collection methods will mostly include qualitative participatory techniques. The methods deployed will be individual and group interviews, focus-group discussions with beneficiaries, and direct observation. Questionnaire-based surveys are not applicable, because the short duration of the mission would not allow the generation of an adequate sample size. The PPA will also make use – where applicable – of the additional data available through the programme M&E system. Triangulation will be applied to verify findings emerging from different information sources.
  17. **Participation.** In compliance with the Evaluation Policy 2011, the main stakeholders of the programme will be involved throughout the evaluation to ensure that the key concerns of the stakeholders are taken into account in the evaluation, and the evaluators fully understand the context in which the programme was implemented, and the opportunities and the constraints faced by the implementing institutions. Regular interaction and communication will be established with the regional division, Asia and the Pacific Division (APR), and Government of India. Formal and informal opportunities will be explored during the process for discussing findings, recommendations and lessons.

#### **D. Evaluation process**

18. The overall processes of the PPA include five phases: desk work phase, country work phase, drafting report and peer review phase, reviews by APR and Government phase, and the final phase of communication and dissemination.
19. **Desk work phase.** The PCRV would derive the initial findings and the key issues to be investigated in the PPA. The draft PCRV is now available, and will be shared with APR for comments before the PPA team undertakes the mission to the country.
20. **Country work phase.** The PPA mission is scheduled from 30 October to 16 November 2012. The mission will interact with the government, local authorities, MFI partners, NGOs, programme staff and programme clients (beneficiaries), and collect information from the programme M&E system and other sources. At the end of the mission, a brief will be provided to the IFAD partner Ministry(ies), and a wrap-up meeting will be held in Lucknow with SIDBI to summarise the preliminary findings and discuss the key strategic and operational issues.
21. **Drafting report and peer review.** At the conclusion of the field visit, a draft PPA report will be prepared and subjected to IOE internal peer review for quality assurance. Mr Ashwani Muthoo, Deputy Director, and Ms Anne-Marie Lambert, Senior Evaluation Officer, will be the peer reviewers for this PPA.
22. **Review by APR and Government of India.** The PPA report will be then shared with APR and thereafter the Government for comments. Upon receipt of government’s comments, IOE will finalise the report.
23. **Communication and dissemination.** The final report will be disseminated to key stakeholders in the country and in IFAD. It will also be posted on the evaluation website of IFAD. IOE might also consider organizing a half-day learning workshop

in Delhi in 2013 once the report is completed, in order to share the lessons and stimulate debate around this important topic.

### Flow of the Process of the PPA of the India NMSP



### E. Key issues for investigation

24. Based on the findings from the PCR, NMFSP had met the main objective of expanding the outreach of microfinance institutions in India. Financial and technical inputs were provided to the partner MFIs with the result of improved access and use of MFI loans. The impact study conducted by the programme also showed that microfinance increased the enterprise activity and household income levels, including assets. However, the efforts to reach the underserved states were still not fully satisfactory at completion. As mentioned in paragraph 14, for the PPA, a few issues are identified for in-depth investigation. These are either selected features of the project's implementation history that were not adequately analysed in the PCR, or issues which are relevant to today's challenges and hence could bring lessons for future projects in India. Below are these proposed issues/questions, which may be subject to changes during the PPA process with new emerging findings.
25. Issues related to selected features of project's implementation history that were not adequately analysed in the PCR:
  - i. Innovation and scaling up. What are the most important innovations promoted by the project? Have the innovations promoted by the project been (or are likely to be) scaled up by the government, SIDBI or other partners?
  - ii. Targeting. The PPA will assess what instruments have been used for targeting and what lessons have been learned for the future. It will also assess whether and why poverty focus was a weakness of implementation.
  - iii. Programme management issue. This includes issues related to programme implementation arrangements, human and financial resources allocated and spent on management, any lessons learned, etc. How effective was the monitoring & evaluation (M&E) system of the project? What were the key results and constraints during the implementation of the three project key components: capacity building of microfinance sector, credit funds for microfinance programme, and policy, advocacy and action research?
  - iv. Efficiency. This includes the project's financial and economic rate of return, the cost per beneficiary, etc.
  - v. Sustainability. Institutional sustainability is fundamental if a financial service provider is to grow beyond initial donor or investor support. The sustainability

of a financial service provider hinges on its profitability, outreach, resource mobilization and the appropriate legal status of operations. The PPA will assess the sustainability of the lending partner organizations and see how they are placed after the project closure.

26. Issues which are relevant to today's challenges and could bring lessons for both SIDBI and IFAD in the future such as:
- i. What has been the impact of the Andhra Pradesh MFI Regulation on the MFIs funded by SIDBI, particularly those with funding support from IFAD? Also, the impact of the regulation on the clients in terms of their access to financial services?
  - ii. Are the MFIs in India engaged in "responsible" microfinance? Are they able to effectively implement the "codes of conduct" developed by their own associations?
  - iii. Are the MFIs practising "good" governance & management principles and policies?
  - iv. Are the MFIs actively engaged in providing financial literacy & credit counselling for their clients to ensure that the poor do not fall into a debt trap?
  - v. Have credit bureaus been established to ensure that the MFIs do not resort to multiple lending?
  - vi. SIDBI is on the Boards of some of the leading MFIs. Has SIDBI been able to contribute to good governance & client protection in those MFIs?
  - vii. Has there been a mission drift among the MFIs? With the flow of private venture capital funds into the MFIs, has there been much greater emphasis on "profit" as compared to the poor having access to financial services to come out of poverty?
  - viii. SIDBI supports MFIs which follow the "Grameen" model and the "Self-Help Group" model. Are those MFIs that follow the self-help group model more resilient to the crisis compared to the commercial MFIs?
  - ix. What lessons can be learnt with regard to regulation and supervision of MFIs to ensure that the poor are effectively serviced to overcome their poverty?

## **F. The evaluation team**

27. Under the supervision of Mr Ashwani Muthoo, Deputy Director IOE, Ms Oanh Nguyen, IOE Evaluation Research Analyst, was appointed as the lead evaluator for this PPA, and will be responsible for delivering the PPA report. Ms Nguyen will be assisted by two consultants: (i) Mr Tupalle Chandra Sekhar Reddy, microfinance specialist, who will contribute to the draft PPA report with a write up on findings and recommendations related to the above issues; and (ii) Dr Kotaiah Pamidi, rural finance expert, who will serve as senior advisor for the evaluation, and provide comments on the draft final report.

## Methodological note on project performance assessments

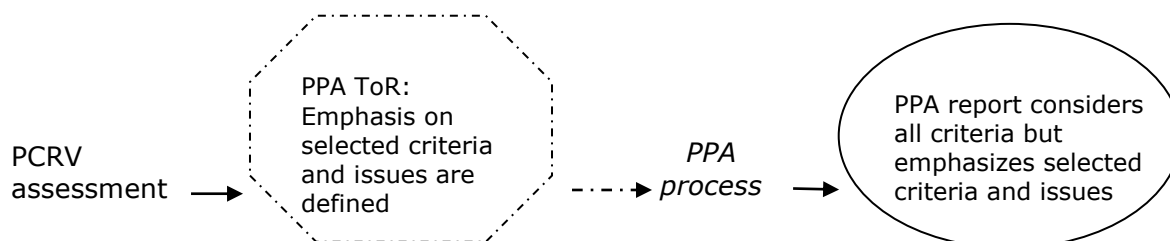
### A. What is a project performance assessment?<sup>1</sup>

1. The project performance assessment (PPA) conducted by the Independent Office of Evaluation of IFAD (IOE) entails one mission of 7-10 days<sup>2</sup> and two mission members.<sup>3</sup> PPAs are conducted on a sample of projects for which project completion reports have been validated by IOE, and take account of the following criteria (not mutually exclusive): (i) synergies with forthcoming or ongoing IOE evaluations (e.g. country programme or corporate-level evaluations); (ii) major information gaps in project completion reports (PCRs); (iii) novel approaches; and (iv) geographic balance.
2. The objectives of the PPA are to: assess the results and impact of the project under consideration; and (ii) generate findings and recommendations for the design and implementation of ongoing and future operations in the country involved. When the PPA is to be used as an input for a country programme evaluation, this should be reflected at the beginning of the report. The PPA is based on the project completion report validation (PCR/V) results, further desk review, interviews at IFAD headquarters, and a dedicated mission to the country, to include meetings in the capital city and field visits. The scope of the PPA is set out in the respective terms of reference.

### B. Preparing a PPA

3. Based on the results of the PCR/V, IOE prepares brief terms of reference (ToR) for the PPA in order to sharpen the focus of the exercise.<sup>4</sup> As in the case of PCR/Vs, PPAs do not attempt to respond to each and every question contained in the Evaluation Manual. Instead, they concentrate on the most salient facets of the criteria calling for PPA analysis, especially those not adequately explained in the PCR/V.
4. When preparing a PPA, the emphasis placed on each evaluation criterion will depend both on the PCR/V assessment and on findings that emerge during the PPA process. When a criterion or issue is not identified as problematic or in need of further investigation, and no additional information or evidence emerges during the PPA process, the PPA report will re-elaborate the PCR/V findings.

#### Scope of the PPA



<sup>1</sup> Extract from the PCR/V and PPA Guidelines.

<sup>2</sup> PPAs are to be conducted within a budget ceiling of US\$25,000.

<sup>3</sup> Typically, a PPA mission would be conducted by an IOE staff member with the support of a consultant (international or national). An additional (national) consultant may be recruited if required and feasible within the evaluation budget.

<sup>4</sup> Rather than an approach paper, IOE prepares terms of reference for PPAs. These terms of reference ensure coverage of information gaps, areas of focus identified through PCR/Vs and comments by the country programme manager, and will concentrate the PPA on those areas. The terms of reference will be included as an annex to the PPA.

### C. Evaluation criteria

5. The PPA is well suited to provide an informed summary assessment of project relevance. This includes assessing the relevance of project objectives and of design. While, at the design stage, project logical frameworks are sometimes succinct and sketchy, they do contain a number of (tacit) assumptions on mechanisms and processes expected to generate the final results. At the post-completion phase, and with the benefit of hindsight, it will be clearer to the evaluators which of these assumptions have proved to be realistic, and which did not hold up during implementation and why.
6. For example, the PPA of a project with a major agricultural marketing component may consider whether the project framework incorporated key information on the value chain. Did it investigate issues relating to input and output markets (distance, information, monopolistic power)? Did it make realistic assumptions on post-harvest conservation and losses? In such cases, staff responsible for the PPA will not be expected to conduct extensive market analyses, but might consider the different steps (e.g. production, processing, transportation, distribution, retail) involved and conduct interviews with selected actors along the value chain.
7. An assessment of effectiveness, the extent to which a project's overall objectives have been achieved, should be preferably made at project completion, when the components are expected to have been executed and all resources fully utilized. The PPA considers the overall objectives<sup>5</sup> set out in the final project design document and as modified during implementation. At the same time, it should be flexible enough to capture good performance or under-performance in areas that were not defined as an objective in the initial design but emerged during the course of implementation.
8. The PPA mission may interview farmers regarding an extension component, the objective of which was to diffuse a certain agricultural practice (say, adoption of a soil nutrient conservation technique). The purpose here would be to understand whether the farmers found it useful, to what extent they applied it and their perception of the results obtained. The PPA may look into reasons for the farmers' interest in new techniques, and into adoption rates. For example, was the extension message delivered through lectures? Did extension agents use audio-visual tools? Did extension agents engage farmers in interactive and participatory modules? These type of questions help illustrate *why* certain initiatives have been conducive (or not conducive) to obtaining the desired results.
9. The Evaluation Manual suggests methods for assessing efficiency, such as calculating the economic internal rate of return (EIRR),<sup>6</sup> estimating unit costs and comparing them with standards (cost-effectiveness approach), or addressing managerial aspects of efficiency (timely delivery of activities, respect of budget provisions). The documentation used in preparing the PCRV should normally provide sufficient evidence of delays and cost overruns and make it possible to explain why they happened.
10. As far as rural poverty impact is concerned, the following domains are contemplated in the Evaluation Manual: (a) household income and assets; (b) human and social capital and empowerment; (c) food security and agricultural

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<sup>5</sup> Overall objectives will be considered as a reference for assessing effectiveness. However, these are not always stated clearly or consistently throughout the documentation. The assessment may be made by component if objectives are defined by components; however the evaluation will try to establish a correspondence between the overall objectives and outputs.

<sup>6</sup> Calculating an EIRR may be challenging for a PPA as it is time consuming and the required high quality data are often not available. The PPA may help verify whether some of the crucial assumptions for EIRR calculation are consistent with field observations. The mission may also help shed light on the cost-effectiveness aspects of efficiency, for example whether, in an irrigation project, a simple upgrade of traditional seasonal flood water canalization systems might have been an option, rather than investing in a complex irrigation system, when access to markets is seriously constrained.



productivity; (d) natural resources, the environment and climate change;<sup>7</sup> and (e) institutions and policies. As shown in past evaluations, IFAD-funded projects generally collect very little data on household or community-level impact indicators. Even when impact data are available, both their quality and the methodological rigour of impact assessments are still questionable. For example, although data report significant increases in household assets, these may be due to exogenous factors (e.g. falling prices of certain commodities; a general economic upturn; households receiving remittances), and not to the project.

11. PPAs may help address the "attribution issue" (i.e. establishing to what extent certain results are due to a development intervention rather than to exogenous factors) by:
  - (i) following the logical chain of the project, identifying key hypotheses and reassessing the plausibility chain; and
  - (ii) conducting interviews with non-beneficiaries sharing key characteristics (e.g. socio-economic status, livelihoods, farming system), which would give the mission an idea of what would have happened without the project (counterfactual).<sup>8</sup>
12. When sufficient resources are available, simple data collection exercises (mini-surveys) may be conducted by a local consultant prior to the PPA mission.<sup>9</sup> Another non-mutually exclusive option is to spot-check typical data ranges or patterns described in the PCR by means of case studies (e.g. do PCR claims regarding increases in average food-secure months fall within the typical ranges recorded in the field?). It is to be noted that, while data collected by a PPA mission may not be representative in a statistical sense, such data often provide useful reference points and insights. It is important to exercise care in selecting sites for interviews in order to avoid blatant cases of non-beneficiaries profiting from the project. Sites for field visits are selected by IOE in consultation with the government concerned. Government staff may also accompany the PPA mission on these visits.
13. The typical timing of the PPA (1-2 years after project closure) may be useful for identifying factors that enhance or threaten the sustainability of benefits. By that stage, the project management unit may have been disbanded and some of the support activities (technical, financial, organizational) terminated, unless a second phase is going forward or other funding has become available. Typical factors of sustainability (political support, availability of budgetary resources for maintenance, technical capacity, commitment, ownership by the beneficiaries, environmental resilience) can be better understood at the *ex post* stage.
14. The PPA also concentrates on IFAD's role with regard to the promotion of innovations and scaling up. For example, it might be observed that some innovations are easily scaled up at low cost (e.g. simple but improved cattle-rearing practices that can be disseminated with limited funding). In other cases, scaling up may involve risks: consider the case of a high-yield crop variety for which market demand is static. Broad adoption of the variety may be beneficial in terms of ensuring food security, but may also depress market prices and thereby reduce sale revenues for many households unless there are other, complementary activities for the processing of raw products.
15. The PPA addresses gender equality and women's empowerment, a criterion recently introduced into IFAD's evaluation methodology. This relates to the emphasis placed on gender issues: whether it has been followed up during

<sup>7</sup> Climate change criterion will be addressed if and when pertinent in the context of the project, as most completed projects evaluated did not integrate this issue into the project design.

<sup>8</sup> See also the discussion of attribution issues in the section on PCRVs.

<sup>9</sup> If the PPA is conducted in the context of a country programme evaluation, then the PPA can piggyback on the CPE and dedicate more resources to primary data collection.

implementation, including the monitoring of gender-related indicators; and the results achieved.

16. Information from the PCRV may be often sufficient to assess the performance of partners, namely, IFAD and the government. The PPA mission may provide further insights, such as on IFAD's responsiveness, if relevant, to implementation issues or problems of coordination among the project implementation unit and local and central governments. The PPA does not assess the performance of cooperating institutions, which now has little or no learning value for IFAD.
17. Having completed the analysis, the PPA provides its own ratings in accordance with the evaluation criteria and compares them with PMD's ratings. PPA ratings are final for evaluation reporting purposes. The PPA also rates the quality of the PCR document.
18. The PPA formulates short conclusions: a storyline of the main findings. Thereafter, a few key recommendations are presented with a view to following up projects, or other interventions with a similar focus or components in different areas of the country.<sup>10</sup>

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<sup>10</sup> Practices differ among multilateral development banks, including recommendations in PPAs. At the World Bank, there are no recommendations but "lessons learned" are presented in a typical PPA. On the other hand, PPAs prepared by Asian Development Bank include "issues and lessons" as well as "follow-up actions" although the latter tend to take the form of either generic technical guidelines for a future (hypothetical) intervention in the same sector or for an ongoing follow-up project (at Asian Development Bank, PPAs are undertaken at least three years after project closure).

## Definition of the evaluation criteria used by IOE

<i>Criteria</i>	<i>Definition<sup>a</sup></i>
<b>Project performance</b>	
Relevance	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design in achieving its objectives.
Effectiveness	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
Efficiency	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
<b>Rural poverty impact<sup>b</sup></b>	Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions.
<ul style="list-style-type: none"> <li>Household income and assets</li> </ul>	Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value.
<ul style="list-style-type: none"> <li>Human and social capital and empowerment</li> </ul>	Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grassroots organizations and institutions, and the poor's individual and collective capacity.
<ul style="list-style-type: none"> <li>Food security and agricultural productivity</li> </ul>	Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields.
<ul style="list-style-type: none"> <li>Natural resources, the environment and climate change</li> </ul>	The focus on natural resources and the environment involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of natural resources and the environment as well as in mitigating the negative impact of climate change or promoting adaptation measures.
<ul style="list-style-type: none"> <li>Institutions and policies</li> </ul>	The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor.
<b>Other performance criteria</b>	
<ul style="list-style-type: none"> <li>Sustainability</li> </ul>	The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
<ul style="list-style-type: none"> <li>Innovation and scaling up</li> </ul>	The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and other agencies.
<ul style="list-style-type: none"> <li>Gender equality and women's empowerment</li> </ul>	The criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects.
<b>Overall project achievement</b>	This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above.
<b>Performance of partners</b>	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. It also assesses the performance of individual partners against their expected role and responsibilities in the project life cycle.
<ul style="list-style-type: none"> <li>IFAD</li> <li>Government</li> </ul>	

<sup>a</sup> These definitions have been taken from the OECD/DAC *Glossary of Key Terms in Evaluation and Results-Based Management* and from the IFAD Evaluation Manual (2009).

<sup>b</sup> The IFAD Evaluation Manual also deals with the "lack of intervention", that is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention "not applicable") is assigned.

## List of key persons met

### Government

Mr Sanjay Garg, Director, Department of Economic Affairs, Ministry of Finance

Ms Uma Subramaniam, Chief General Manager-in-Charge, Department of Non-Banking Supervision, Reserve Bank of India

Mr Navin Kumar Maini, Deputy Managing Director, Small Industries Development Bank of India (SIDBI)

Mr P. K. Saha, Chief General Manager, SIDBI

Mr A. R. Samal, General Manager, SIDBI

Mr Vivek Malhotra, Deputy General Manager, SIDBI

Mr Rajesh Kumar, Assistant General Manager, SIDBI

Mr Vijay Kumar Singh, Manager, SIDBI Varanasi

Ms Anisha Pal, Manager, SIDBI Kolkata

Ms Mandira Sinha, Assistant General Manager, SIDBI Guwahati

Ms Hemamalini Srinivasan, Manager, SIDBI Bangalore

Mr Venugopal Rao, Deputy General Manager, SIDBI Chennai

Mr S. Srinivasan, Assistant General Manager, SIDBI Chennai

Dr N. K. Madan, Country Head, SIDBI Mumbai

Mr A. Prakash Srivastava, Deputy General Manager, SIDBI Mumbai

Mr V. Srinivasan, Assistant General Manager, SIDBI Mumbai

Mr Neeraj Srivastava, Assistant General Manager, SIDBI Mumbai

### International and donor institutions

Ms Anu Gupta, Programme Manager, United Kingdom Department for International Development (DFID)

Ms Ritu Chhabra, Deputy Programme Manager, DFID

Ms Ragini Chaudhary, Private Sector Development Advisor, DFID

### Non-governmental organizations and associations

Mr Mathew Titus, Managing Director, Sa-dhan

Mr Balasubrahmanyam, General Manager, Sa-dhan

Mr Harihara Mohapatra, Assistant Manager, Sa-dhan

West Bengal Microfinance Institutions Association (15 participants)

Association of Karnataka Microfinance Institutions (10 participants)

### Microfinance institutions

Mr Ravi Baranwal, Assistant General Manager – Finance, Cashpor Micro Credit

Dr B. B. Singh, Chief Finance Officer, Cashpor Micro Credit

Mr C. S. Ghosh, Chief Managing Director, Bandhan Financial Services Private Limited

Ms Arpita Sen, Assistant General Manager, Institutional Finance, Bandhan Financial Services Private Limited

Mr A. K. Maity, Secretary, Village Welfare Society

Mr Kuldip Maity, Managing Director and Chief Executive Officer, Village Financial Service

Ms Rupali Kalita, Managing Director, RGVN (NE) Microfinance Limited

Dr Amiya Sharma, Executive Director, RGVN

Mr K. N. Hazarika, Board Member, RGVN (NE) Microfinance Limited

Mr Suresh K. Krishna, Managing Director, Grameen Financial Services Private Ltd.

Mr R. S. Hariharan, Chief Finance Officer, BWDA Finance Limited (BFL)

Dr Joslin Thambi, Founder cum Secretary, BWDA Finance Limited (BFL)

Mr M. Narayanan, Chief Executive Officer, Madura Microfinance Ltd.

Ms Veena Mankar, Managing Director, Swadhaar FinServe Private Limited

Mr Rajaram Kamath, Chief Executive Officer, Swadhaar FinServe Private Limited

Focus group discussion with MFI field staff of Bandhan Financial Services Private Limited

Focus group discussion with MFI field staff of BWDA Finance Limited

### **Research and training institutions**

Mr Manoj K. Sharma, Director, MicroSave

Ms Bhavana Srivastava, Specialist, MicroSave

### **Beneficiaries**

Two focus group discussions with clients (40 women) of Cashpor Micro Credit in Varanasi, Uttar Pradesh

One focus group discussion with clients (28 women) of Bandhan Financial Services Private Limited in West Bengal

Two focus group discussions with clients (38 women) of RGVN (NE) Microfinance Limited in Assam

One focus group discussion with clients (15 women) of Grameen Financial Services Private Ltd. in Karnataka

One focus group discussion with clients (20 women) of BWDA Finance Limited in Tamil Nadu

Two focus group discussions with clients (20 women) of Madura Microfinance Ltd. In Tamil Nadu

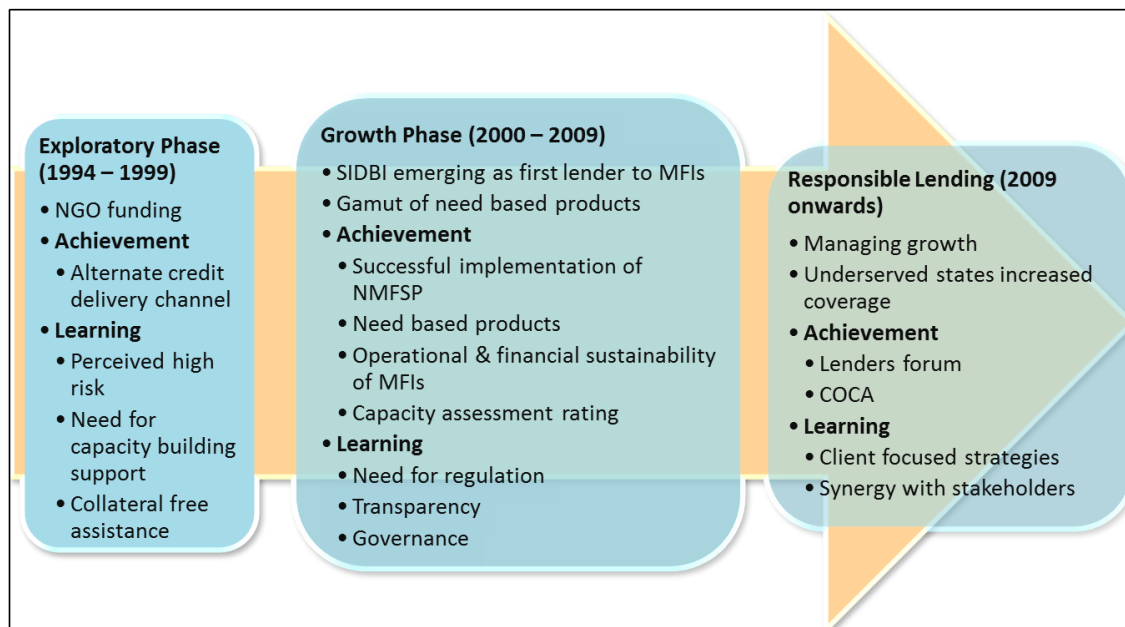
### **Other resource persons**

Mr Narasimhan Srinivasan, microfinance expert.

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## Phases of SIDBI's microfinance programme



Source: SIDBI

## **SIDBI's products and services**

SIDBI has a broad range of products and services that support both MFI and sector development. These include:

- Term loan for on-lending: Direct loans to MFIs, but SIDBI can also wholesale funds to NGO-MFIs that then on-lend to local MFIs to expand access and outreach
- Microenterprise term loans: for borrowers who are graduating from microcredit and need individual microenterprise loans
- Liquidity management support: to enable MFIs to tide over cash flow problems
- Transformation loan: quasi-equity support to provide capital to MFIs that are transforming from a non-profit to a for-profit entity
- Corpus support for transformation: similar to transformation loan but targeted at smaller MFIs and focused on helping them formalize their operations
- Collateral fund: to help small MFIs meet cash collateral requirement
- Equity fund: to provide growth capital to formal MFIs with demonstrated potential for scale-up and ability to generate returns. Can also provide quasi-equity/mezzanine funding
- Capacity building support, including training, exposure visits, funding of feasibility studies, MIS development, vehicles, computers, impact surveys, etc. Provides packages of support based on annual capacity building needs assessment. Young Professionals Programme
- General capacity building for the sector (e.g. of technical service providers and consultants, auditors)
- Specialized services (e.g. longitudinal impact study, incubation support for start-up MFIs)
- Policy advocacy

Source: SIDBI case study. CGAP: *Reassessing the Role of Apexes: Findings and Lessons Learned*. June 2011



## Comments and views of SIDBI on the Project Performance Assessment of the National Microfinance Support Programme

Sr No.	Particulars	Comments of SIDBI
1	<p><b>Relevance (III) A.36, 37 and 38 (Pages 8 and 9)</b></p> <p>1. A key design strength of the project is the choice of SIDBI, an apex development bank of the country, as implementing partner and through that process enabling the MFIs to obtain linkages with FFIs. The project also followed an uncomplicated approach which allowed it to develop a sector of high demand in the country without placing it at a large risk of failure due to a complex design. <b>However, there were some missed opportunities in terms of investments in client education and skill development, as well as support for improvements in agricultural productivity and the livelihoods of final beneficiaries. This will be discussed in more details in the following sections.</b></p> <p>2. Another shortcoming of the design was the fairly limited approach of including and assessing the needs of the target group in the design phase. Even though the poor were included in the targeting, none of the project components were specifically designed to look at the needs of the poor and how to effectively reach out to them through MFIs. All components were focused on the institutional changes or policy reforms of the microfinance sector. <b>During most part of the first decade of the 21<sup>st</sup> century (project duration), SIDBI followed "MFI centric" approach to propel exponential growth in the sector. Only in 2009, toward to the end of the project, was there a realization in SIDBI to follow a "client centric" approach as there were clear indications of neglect of client protection by the MFIs. The lack of client protection in the</b></p>	<p>The interpretation of various developments/ measures and role of SIDBI prior to Andhra Crisis as "MFI Centric" does not bear out of fact, which needs to be justified in the light of objective with which SIDBI ventured into Micro Finance Sector and thereafter various phases of Development. With a small start SIDBI pioneered into Micro Finance Activities in February 1993 by providing revolving fund to select well managed NGOs for on lending to disadvantaged section of the society, for setting up of micro enterprises. This was done after taking cue from success of Grameen Bank Model in Bangladesh. After further researching the success of the Model, Micro Credit Scheme (MCS) was launched in February 1994. Again the objective was to encourage well managed NGOs to reach the disadvantaged section of the society with emphasis on women, for setting up micro enterprises. Understanding the need that a large impact of Micro Credit in a vast country like India was possible only by improving the institutional and financial management capabilities of NGOs/MFIs; the first step was to strengthen the well managed NGOs. The success of SIDBI in channelizing the formal fund for upliftment of disadvantaged sections of the society got noticed by international organisations that led to further infusion of funds through start of National Micro Finance Support Programme (NMSP) in collaboration with IFAD, Rome and DFID, UK. Since then, SIDBI is continuously innovating and endeavouring for creation of an enabling atmosphere where the funds are channelized through MFIs to poor and economically weaker sections of the society for enhancing their livelihood through non-farm income generating activities.</p> <p>Since the year 2000 SIDBI started the process of sensitizing the MFIs on Credit plus services and streamlining its internal systems and procedures and instituting best practices by way of Capacity Building Need Assessment (CBNA) and financial support by way of grant under Capacity Building Support Scheme. Further SIDBI also innovated the Capacity Assessment Rating of MFIs, wherein MFIs were evaluated on parameters covering both financial sustainability and social impact by accredited rating agencies. SIDBI has also supported Sa-Dhan, an association of MFIs, since FY 2002 in various ways viz. Training to its members, Financial Education programmes and policy advocacy which sowed the seeds of culture of best practices in Micro Finance sector in India.</p> <p>SIDBI commissioned the seven year longitudinal socio-economic research, in order to study the</p>

<p><b>sector during those years was among the main reasons leading to the microfinance crisis in 2010.</b> In fact, way back in the year 2005, the first microfinance crisis already occurred with 52 MFI branches in one district of Andhra Pradesh closed down by district administration with the allegations of certain unfair practices by MFIs such as multiple lending and following coercive loan recovery practices. Though all the sector players, including SFMC, were involved in managing the crisis, the real problems were not addressed.</p> <p><b>3. The lack of strategic learning from experiences during implementation is another shortcoming. Throughout the project life, there was inadequate attention to systematically documenting the lessons learned. There was very limited discussion about the major problems faced by the sector and the strategies to address those in any of the supervision mission reports and also the PCR.</b> Therefore, the valuable lessons from the 2005-2006 microfinance crises were not learned and used as a basis to build a more responsible microfinance sector in India, leading to the major crisis in 2010.</p>	<p>developmental impact of MFI programme conducted during the period 2001-2007. The findings mentioned that through NMSP the fund support effectively reached out to the poor and mostly woman and brought positive changes in their livelihood pattern. Further, there was increase in employment opportunities and availability of financial resources at the door step of the poor. Overall, the programme has highly impacted the sector as a whole enabling the poor access to credit and associated empowerment, contributing to awareness for the need for more responsible micro finance practices in structured way.</p> <p>The lessons learnt during this phase of NMSP were immense. Much before the microfinance crisis of 2010, the Bank, taking cue from the lessons learned, started dialogue with the World Bank impressing upon it the need for promoting more Responsible Financing by MFIs, eventually leading to start of Sustainable and Responsible Micro Finance Project in collaboration with the latter in early 2010 i.e before the AP problem. Even earlier to this, the preliminary discussion/genesis of setting up Lenders' Forum started, the purpose of which was to promote responsible microfinance in the Micro Finance Sector. Accordingly, an initial meeting to deliberate on the issue was organised by SIDBI with the World Bank and other stakeholders on December 09, 2009 at Mumbai. Thereafter, the Lenders' Forum was set up. The objective of Lenders' Forum was leveraging support to MFIs across the sector to promote more responsible lending practices. The forum would also seek to work towards voluntary adoption of measures on governance, transparency, competitive practices, improved accounting standards, Code of Conduct and condition support to MFIs on their adherence and adoption of these industry standards by building them into lending covenants by lenders. Till date, Lenders' Forum has conducted 8 meeting contributing various measures to promote responsible microfinance practices.</p> <p>Further SIDBI has partnered with ACCION International and is supporting the Smart Campaign, which is a global effort to embed a set of Client Protection Principles (CPPs) amongst the MFIs. The initiative entails three activities viz., - educating the assisted MFIs on CPPs; conducting Client Protection Assessments (CPAs) and capacity building and strengthening client protection amongst the MFIs. SIDBI has also supported Credit Bureau of MFIs like Highmark which will help MFIs to be more disciplined and availability of data from Credit Information Bureaus would help MFIs to tackle multiple lending issues and defaults.</p> <p>The Micro Finance sector in India has followed the natural course through a process of evolution. SIDBI, since the start of Micro Finance Operations has always played a proactive role in development of this sector with focused objective of access to institutional credit by the poor on reasonable terms. The basic objective of SIDBI micro finance</p>
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		<p>operations during the initial phase was to financially and otherwise enable the poor to first secure their basic and emergency needs, as a precursor to further enhance the quality of their lives.</p> <p>SIDBI, in all its endeavour is insisting that MFIs, in addition to following the RBI guidelines, inter-alia, charging of regulated interest rate, margin cap etc., should follow all the tenets of responsible lending practices. The required conditions of responsible lending practices are stipulated in the sanction terms and followed up to ensure that they are implemented. Recently introduced Code of Conduct Assessment (COCA) is one such major step towards sensitizing the MFIs on client protection measures.</p> <p>Various innovative methods adopted by SIDBI during past decade like Capacity Assessment Rating, Capacity Building of NGOs/MFIs, Support for professional management and effective governance, introduction of best practices, lenders forum, policy advocacy, Portfolio Risk Fund (PRF), Code of Conduct Assessment (COCA), Poorest State Inclusive Growth Programme (PSIG), Credit Bureau, Smart Campaign and India Micro Finance Equity Fund (IMEF) vindicate that the gradual evolution was the outcome of learnings only.</p> <p>Considering the various phases of evolution of SIDBI's Micro Finance Operation and the lessons learnt, the conclusion that there was lack of strategic learning from experiences does not bear out, and so also the observation that there was inadequate attention to systematically documenting of the lessons learned. This can be well justified by various studies, reports and other programmes supported by SIDBI for the growth of the sector in pre and post Andhra crisis of 2010. Thus, the learnings were utilized in desired direction for strengthening the sector by way of improving the capabilities of all the players involved in the sector, policy advocacy, and responsible lending measures. These were phase-wise developments to be implemented with more careful approach of need based regulation and awareness, than a sudden immediate rigid provision, perhaps. The conclusion that the Andhra crisis of 2010 was purely the result of unlearning by the sector players may not be true.</p> <p>SIDBI completely disagrees with the observation that "lack of client protection in the sector during those years was among the main reason leading to microfinance crisis in 2010". It may be noted that crisis was precipitated by legislative action which was disproportionate to the magnitude of the problem. The losses suffered by the microfinance sector and banks due to this legislative action have been huge.</p>
2	<p><b>Serial No.43 (page 10)</b> With the fast growth of SFMC, in fiscal year 2009, SIDBI has opened seven specialized microfinance branches (SFMC branches) across the country. However, following an</p>	<p>As a part of strategic reorientation in the changed scenario, SIDBI merged its specialized microfinance branches with main branches of SIDBI. However there was no reduction in staff, as the existing staff of specialized micro finance branch was also merged with main branch of SIDBI, which is equally</p>

	<p>internal restructuring of SIDBI, the Board of SIDBI decided not to continue with the specialized microfinance branches and that responsibility has been assigned to the staff of regular SIDBI branch offices. In some underserved states, the restructuring process also led to a reduction in the staff of SIDBI</p>	<p>responsible for micro finance operation. Also, due to Andhra Pradesh crisis, there was reduction in micro finance business portfolio of the Bank. Further, the sanctions were also centralised at Head Office, thereby reducing the work load of Branches as changed sectoral scenario required more specialized process for lending. It may also be mentioned that concerted steps have been taken to reach out to the poor in underserved States. Thus, the findings that there is reduction in staff in the Branches of SIDBI in underserved States is not borne out of fact and therefore, SIDBI does not agree with this observation.</p>
3	<p><b><u>Serial No.46 (page 11)</u></b>  However, during the financial year 2011-2012, following the crisis, SFMC loan outstanding came down to INR21.54 billion, and SFMC had to restructure INR 8.73 billion of loans, mostly for the MFIs based in Andhra Pradesh. The total Non-Performing Assets (NPA) under the microcredit scheme of SIDBI stood at INR 386.7 million (1.8 per cent of the outstanding portfolio) in March 2012, compared to 0.07 per cent in March 2009. <b>These raise some questions about the sustainability of the commercial MFIs</b> (please refer to the section on sustainability for further information).</p>	<p>As widely accepted, the A.P. problem arose not because of intrinsic weaknesses of the model or sector, but because of fall out of the Andhra Pradesh Microfinance Institution (Regulation of Moneylending) Act, 2010 legislation, that severely impacted the functioning of MFIs in the State.</p> <p>The concerted actions of the Government of India and RBI, Malegam Committee recommendations followed by RBI issuing guidelines for MFIs, allowing CDR to AP based MFIs those have been hit by the crisis with relaxed norms/forbearance and MFI (DR) Bill 2012 awaiting Parliament consideration, bear enough testimony there to. According Priority Sector Lending status to MFI loans by RBI subsequently, only drives the point further and underscores the role of MFIs in inclusive finance being pursued by GoI.</p> <p>Though the Andhra Pradesh crisis, resulted in major setback to the MFIs operating in the State of Andhra Pradesh, the contagion effect to other geographies was limited. SIDBI has already initiated need based proactive steps by way of restructuring the loans of MFIs by bringing them under the fold of Corporate Debt Restructuring Mechanism. As on date, the repayments of the MFIs restructured under CDR is regular.</p> <p>In addition to restructuring of loans, SIDBI has also played an advocacy role for allowing concession to lenders by Reserve Bank of India (RBI) in provisioning norms in respect of restructured loans of affected MFIs. SIDBI has also played an effective role in formulation of policy for such commercial MFIs by RBI and GoI and has also helped in formulation of Code of Conduct Assessment (COCA) to sensitize MFIs on client protection.</p> <p>Due to intense efforts of the stake holders including SIDBI, encompassing approach of GoI and the regulator, Reserve Bank of India, the contagion effect has been minimal and the sector is on a path of recovery. Non-AP MFIs and non-AP operations of AP based MFIs are doing well with recovery rate of more than 98%.</p> <p>More than two years have passed and the AP Problem has not crossed the boundaries of State. Further, SIDBI and other Banks have restarted lending to MFIs. In addition, the sector is still</p>

		<p>attracting private equity investment. This re-establishes the commercial strength and viability of the sector.</p> <p>Thus, the doubt about sustainability of Commercial MFIs does not corroborate with the fact of outcome at this stage of time and, therefore, SIDBI is of the view that in the absence of any scientific/ econometric basis, the observation appears to be somewhat premature.</p>
4	<p><b><u>Serial No.74 (page 17)</u></b> The focus group discussions which the PPA mission had with the beneficiaries also showed that the MFIs paid limited attention to client education.</p>	<p>The implementation of responsible lending practices and Code of Conduct Assessment is expected to have major impact in establishment of client protection measures for the poor borrowers in micro finance sector.</p>
5	<p><b><u>Serial No.82 (page 18)</u></b> The Impact Assessment Study (IAS) and the Project Completion Report (PCR) did not provide much information on the impact of the project on the area of natural resources and environment. Given the lack of evidence, the PPA did not assign a rating to this criterion (rating NA – Not Applicable).</p>	<p>Microfinance beneficiaries, mostly engaged in traditional income activities based on local resources, are having nil or insignificant environmental impact due to scale/technology. As mentioned in the PCR, during post project period environmental appraisal of SFMC lending was undertaken by an accredited agency (Society for participatory research in ASIA-PRIA) covering the identification of environmental risks associated with microfinance funded projects.</p> <p>The study, inter alia, brought out the need for Training on environmental hazards, creation of awareness on environment, manual on environment and linkage of lending activities to environment and social standards.</p>
6	<p><b><u>Serial No.106 (page 22)</u></b> There are however some missed opportunities. During the field visit of the PPA mission, it was observed that in most of the cases, the women came to the centre meetings, sat there observing the loan officers entering all the transactions, made their payments and then went away. There was hardly any discussion in the centre group meetings. The mission also observed around 10-20 per cent of the members were absent from the group meetings as the women did not find it useful to come, and chose instead to send their repayment instalments through other women who attended the meetings. While the loan officers did take attendance of those attending the meeting, that did not seem to be a critical criterion for obtaining new loans. There were cases of women who have attended some 300 centre meetings over a period of 5-6 years and still have hardly gained any understanding about the importance of savings, responsible borrowing, interest rates charged by the MFIs, the viability of</p>	<p>Anecdotal evidence cannot be taken as fully representative of systemic issues. As indicated in serial no.4, the implementation of responsible lending practices and Code of Conduct Assessment is expected to play an important instrument in establishment of client protection measures for the poor borrowers in micro finance sector.</p> <p>It is expected that tenets of responsible lending practices like establishment of suitable grievance redressal mechanism and ensuring that clients are aware of the same, not to employ any agent and coercive recovery methods and emphasis by MFIs on credit plus services is expected to put a check on unhealthy practices. At present MFIs are offering Credit Plus Services like Insurance, Skill Training, sanitation education and Healthcare to their clients. Further, increasingly innovative methods/products under Credit plus services are expected to improve attendance and awareness in such group activities.</p> <p>The impact assessment of NMSP has clearly reflected the empowerment of women beneficiaries. Coupled with more responsible, client centric lending practices by MFIs, the assertion of entitlement/client rights should be realized.</p> <p>RBI guidelines emphasising the need for client education, rights and entitlements of poor women, grievance redressal, etc., are expected to improve the awareness among MFIs and their clients. It is a</p>

	<p>the economic activities they are involved in, the various government programmes available for the poor, and the rights and entitlements of women. This is really a missed opportunity.</p>	<p>continuous process and therefore it may not be appropriate to term it as missed opportunity.</p>
7	<p><b><u>Serial No.116 (page 23)</u></b>  However, some stakeholders in the sector which the PPA mission met, felt that SIDBI could have been more proactive in preventing the crisis and minimizing the adverse effects of the crisis. Discussions with MFI senior management revealed that, though the overall opinion about SFMC is positive, there is a sense of anxiety about the inordinate delays in the sanction and release of loans to MFIs post crisis by all financial institutions, including SIDBI. This has been further exasperated by SIDBI's centralized decision making and more stringent loan "terms and conditions" including the requirement of a personal guarantee by the MFI CEOs. MFIs have expressed concern about the lack of communication from the SIDBI branch offices about the status of their loan applications, and the likely date of the loan sanction and release.</p>	<p>Even before the Andhra Pradesh (AP) issues cropped up, SIDBI, having felt the necessity for more responsible lending practices among MFIs, engaged itself with the World Bank to promote and propagate Responsible Lending Practices. Consequent to the enactment of Andhra Pradesh Microfinance Institution (Regulation of Moneylending) Act, 2010 SIDBI, in line with its apex role, proactively got engaged with GOI, Govt. of AP, Reserve Bank of India, industry bodies, to avert the crisis like situation in AP and more importantly containing the contagion effect arising therefrom. Due to intense efforts of the stake holders including SIDBI, encompassing disposition of GoI and the regulator, Reserve Bank of India, the contagion effect has been minimal and the sector is on a path of recovery. Non-AP MFIs and non-AP operation of AP based MFIs are doing well with recovery rate of more than 98%.</p> <p>To partially address the illiquidity in the aftermath of the AP crisis, the Bank also successfully managed the `100 Crore India Microfinance Equity Fund (IMEF) by assisting 37 MFIs with equity/quasi equity support so as to enable leveraging loans from the banks.</p> <p>Helping consolidation of MF industry with responsible financing, client focused dispensation, reasonable growth and strict compliance with regulatory norms has been the underlying principle for the Bank as a responsible stake holder. This has resulted in time consuming processes like introduction of Code of Conduct Assessment (COCA) exercise, MFIs' compliance with RBI guidelines that came in stages, etc. thereby extending the time frame. SIDBI has also created a Lenders' Forum of major lenders to MFIs, so as to drive responsible lending practices among MFIs at the behest of lenders as a group.</p> <p>As regards obtaining of Personal Guarantee, it may be mentioned here that it is a common form of security required by lenders all over India for granting all types of loans. In line with the same, it is stipulated as standard condition in respect of lending programme under microfinance as well. It may be indicated here that SIDBI provides financial assistance to MFIs under its Micro Credit Scheme, where no collateral security is obtained. Being more or less an unsecured assistance it becomes necessary for Promoters to have a dedicated interest in the operation of MFIs. Accordingly, in line with the practice prevalent with all lending programme, the condition of Personal Guarantee of the promoters is stipulated. Centralised decision making, personal guarantee, terms and conditions is a lender's prerogative and cannot be dictated by borrower.</p>

		<p>In addition to above, SIDBI through its Poorest State Inclusive Growth (PSIG) Programme with DFID, UK support has set up a Think Tank of eminent experts in the micro finance field both from the industry representative bodies such as Sa-Dhan and MFIN as well as external experts.</p> <p>The Think Tank will hold regular interaction with various stakeholders Central Government, State Government, RBI, Banks etc. in the micro finance sector both at national as well as state level, with a view to address policy gaps and create an enabling policy environment for the micro finance sector. Similar state level bodies are also being set up to feed the National level Think Tank on state level policy issues.</p> <p>A Vision document for each PSIG state (UP, MP, Bihar and Orissa) is being prepared, which will include status of credit and other financial services in the state, gaps in provision of financial services, suggested measures for addressing these gaps etc.</p> <p>PSIG also plans: i) Holding regular interactions through workshops, interfaces, seminars etc. with banks and MFIs/SHPIs, on emerging trends and issues in micro finance.</p> <p>ii) Providing support to MFIs' representative organizations for effective implementation of code of conduct.</p> <p>iii) For supporting collective effort of lenders on impressing upon MFIs the need for a transparent, client friendly and well-governed MF delivery channel. These include, continuous dialogue with banks and policy advocacy, promoting/ strengthening lenders forum.</p> <p>The delays attributed by MFIs is mainly due to their compliance with the new RBI Guidelines after implementation of Malegam Committee Recommendations viz. compliance of interest rate norms, tenets of responsible lending practices, qualifying assets norms, time bound application for registration as NBFC-MFI and maintenance of minimum Net Owned Fund norms. There was also delay in submission of adequate documents like rating reports, COCA reports etc., which kept proposals temporarily closed at SIDBI's end. Thus, we are of the view that the observation regarding lack of communication etc. has been made without formally ascertaining SIDBI's point of view and, therefore, we disagree with it.</p>
8	<p><b><u>Serial No. 122 (page 24)</u></b>          Though the achievement in terms of client outreach was significant, there was a <b>lack of support by the project and the MFIs to the clients to improve their livelihoods. There was not much initiative in skill development for the clients, and there were limited investments in client education (paragraphs 73-74).</b> A</p>	<p>The PPA has clearly acknowledged that the project successfully addressed the main objective of expanding the outreach of MFIs in India, with SIDBI playing a pivotal role in institutional development of the MFIs, besides lending, that triggered significant increase in financial flows from Formal Financial Institutions.</p> <p>As indicated in serial no.6, the implementation of responsible lending practices and Code of Conduct Assessment is expected to play a major impact</p>

	<p>vast majority of the rural population in India depend on agriculture. NMSP did not have any specific strategy to improve agriculture productivity (paragraph 78). In a microfinance programme of such a large scale, this was a missed opportunity as adequate attention to this area could enhance the income and food security of the beneficiaries. The financial products offered were not always need-based, i.e. suiting the livelihoods activities undertaken by the clients.</p>	<p>instrument in establishment of client education /protection measures amongst MFIs.</p> <p>SIDBI has partnered with ACCION International in supporting the Smart Campaign, a global effort for an embedded set of Client Protection Principles (CPPs) in the MFIs. The initiative entails, educating the MFIs on CPPs, Conducting Client Protection Assessments and capacity building and strengthening client protection cause among MFIs.</p> <p>Post AP crisis and Malegam Committee recommendations, RBI has come out with comprehensive regulatory guidelines for compliance by MFIs, interalia, adherence to Fair Practices Code issued by RBI and to allocate greater resources for professional inputs on formation of SHGs/JLGs and appropriate training and skill development activities for capacity building and empowerment of the groups.</p> <p>The proposed draft MFI (DR) Bill 2012 under consideration of Indian Parliament also has adequate provisions for client development/ empowerment as they mostly belong to the bottom of the pyramid.</p> <p>The objective of NMSP was development of a more formal, extensive and effective micro finance sector on a national scale serving the poor especially women. Further SIDBI has been mandated to provide loans only for non-farm income generating Micro Enterprise Activities. It may be emphasised that NMSP was not specifically designed/supported to improve the agricultural productivity. However, it may be indicated here that even though the NMSP focus area was not Agriculture related activities, yet the programme has indirectly contributed to increase in income of majority of poor population who mostly survive on agriculture.</p>
9	<p><b><u>Serial No.123 (page 25)</u></b> Concerning gender, there was evidence of achievements in terms of social empowerment for women including more ownership of assets, involvement in microenterprise management, and stronger decision making power in the family. There are however some missed opportunities.</p>	<p>One of the important findings of the seven year Impact Assessment study (IAS) was that the Proportion of women client with economic activity as their main occupation increased considerably along with other social benefits.</p>
10	<p><b><u>Serial No.130 (page 25)</u></b> There is a need for further <u>support to the smaller MFIs in underserved regions</u> as they have a very important role to play in order to reach the unreached (paragraph 124). This is also a way to enhance the poverty focus of microfinance programmes. Currently, SFMC is implementing the PSIG programme supported by DFID, which has the potential to support these MFIs. The India Microfinance Equity Fund supported by the Government of India is another opportunity. SIDBI</p>	<p>As regard further support to the smaller MFIs in underserved regions, it may be indicated that SIDBI is currently operating India Microfinance Equity Fund [IMEF] announced by Hon'ble Union Finance Minister in the Union Budget for FY2011-12. The fund seeks to invest in equity and equity type instruments in non-NBFC MFIs and smaller NBFC MFIs with a view to build long term sustainability in their operations for operating in underserved and unserved areas of the country. While presenting the Union Budget for FY2014, Hon'ble Union Finance Minister has increased the corpus by ` .200 crore taking the entire corpus to ` .300 crore.</p>



	<p>needs to work with the Government of India and RBI to aim for an early enactment of the Microfinance Regulation and Development Bill as it is critical for these smaller NGO-MFIs to become regulated entities in order to operate in these difficult areas. <b>Certain synergies also need to be developed with the National Rural Livelihoods Mission to maximize impact.</b> In addition, on a related issue, the PPA mission observed a number of institutional models for the MFIs (including not-for-profit legal forms such as Section 25 company, and for-profit NBFCs) with some variations in their business models. In this regard, it may be useful to commission an independent study on key design considerations and institutional elements for an appropriate institutional model and business strategy for MFIs to serve their clients responsibly and to become sustainable.</p>	<p>SIDBI has already initiated the process for Study of viability of Indian MFIs and design of a financing framework in the current context of the Indian microfinance sector. The objective is to conduct a country-wide study to develop a framework for improving financial flows to MFIs by an in depth examination and analysis of MFI operations, financials and performance. The study would examine liquidity, profitability and solvency of MFIs, categorize MFIs in accordance with their performance potential, develop a framework for financing different categories of MFIs considering realistic risks and risk mitigants, and recommend the terms and specific conditions to be met by MFIs for accessing loans from banks.</p> <p>As regards early enactment of MF Bill it may be mentioned that GoI is taking all steps for early passage of the same. SIDBI has been providing support to GoI whenever asked for.</p> <p>As regards developing synergies with National Rural Livelihood Mission, the Bank under WB project on Sustainable and Responsible Micro Finance, has envisaged a joint meeting of SIDBI, DFS and Ministry of Rural Development (MoRD) for fostering collaboration between SHGs and MFIs, so as to carry forward the initial ground work done under the project liaising with Bihar State Rural Livelihood Mission and a partner MFI of the Bank.</p>
11	<p><b><u>Serial No.131 (page 26)</u></b> Independent <b>research and studies also need to be commissioned by sector players to understand various processes and the impact of microfinance.</b> Given the general public perception about microfinance following the crisis, <b>there is a need to have high quality publications and dissemination strategies to widely publicize the good quality work done and also to capture any early warning signals that may lead to crisis (paragraph 125).</b> Reliable and real-time data for the microfinance sector need to be available. Functional forums at district, state and national level need to be established.</p>	<p>This is a general observation pertaining to all sector players. Perhaps the Industry Association has to play the role.</p> <p>From time to time SIDBI has conducted various studies through professional organizations to assess the changing needs of the microfinance sector. In addition to the study mentioned at serial no.10, SIDBI has also initiated the process of conducting studies on Responsible Micro Finance Practices by Micro Finance Institutions (MFIs) in India and Credit Enhancement Practices- Institutional Lending to MFIs - Role and Impact of Portfolio Risk Fund. The findings of all the studies shall be disseminated among wider audience, including all stakeholders of the mf sector.</p> <p>Further the association of MFIs i.e Sa-Dhan is publishing Sa-Dhan quick report every year which quantitatively and qualitatively makes a yearly analysis of Micro Finance Sector. Also State of the Sector Report published by Access Development Services every year provides an in-depth analysis of the investment climate, policy and performance of the Micro Finance Sector. SIDBI regularly supports publication of these reports. Recently, SIDBI has also supported the initiative of starting an online country portal under India Microfinance Platform with an objective of availability of real time data on MFIs. SIDBI has also supported High Mark, which has largest rural client microfinance database. Most of the MFIs supported by SIDBI has become member of Highmark and sharing their borrower database.</p>

		<p>Regarding establishment of functional forums at district, state and national level, it may be mentioned here that draft MF Bill already provides for this. It provides for establishment of 'State Micro Finance Council' for considering the extent of MFI activities in the states. Also, it provides for creation of 'District Micro Finance Committee', headed by District Collector, to review the growth and development of MFI activities.</p> <p>In addition to the above as a part of the PSIG Programme, a document on drill down of successful interventions in the PSIG states has been planned and shall be brought out soon. Further, another document on successful BC models in PSIG states has also been planned and shall be brought out.</p> <p>SIDBI has been supporting the Micro Finance India Summit every year which is the most celebrated Micro Finance event in the sector. The Summit is a platform which showcases the impact created by Micro Finance on the BPL segment and the consequent contribution to Financial Inclusion.</p> <p>Functional forum at District, State and National level are provided for in MF Bill.</p>
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2. The PPA has identified certain recommendations for consideration of IFAD, DFID, GoI, SIDBI and other players which are dealt with below:

<i>Sl no.</i>	<i>PPA recommendation</i>	<i>Comments</i>
(i)	<p><u>Microfinance plus services and needs-based financial products:</u> While providing credit, it is important to also provide support to the clients (such as skill development training related to their income generating activities) for enhancing their livelihoods. The loan products offered must suit the livelihoods activities undertaken by the clients.</p>	<p>Some of the MFIs assisted by the Bank are already providing credit plus services to their clients. The PPA has observed the same in case of BWDA, in Tamil Nadu. The responsible lending covenants applicable to all loans by SIDBI underscore the importance of such practices by assisted MFIs.</p> <p>COCA exercise also captures credit plus activities of MFIs to their clients as a pro client measure.</p> <p>Skill development training of clients and group dynamics helps clients in assimilation of higher skill sets of successful members, thus enhancing livelihood skills.</p> <p>RBI prescription to allocate greater resources towards professional inputs in the formation of SHGs/JLGs and appropriate training and skill development activities for capacity building and empowerment of groups is expected to further the client directed practices and benefit the client.</p> <p>The proposed draft MFI (DR) Bill 2012 under consideration of Indian Parliament also has adequate provisions for client development/empowerment as they mostly belong to the bottom of the pyramid.</p>

		<p>In addition, under the Access to Finance output of PSIG, supporting provision of other financial services such as savings, insurance, pension etc. is a key activity by way of capacity building grant to MFIs/SHPIs. The capacity building would also involve focus on training of women clients and exposure trips to other MFIs/SHPIs.</p> <p>Under the gender output of PSIG, financial literacy of women clients is a major activity with a deliverable of training 3 lakh women clients.</p> <p>The programme also focuses on development of various financial products such as Livelihood activity linked products, family income and cash flows based products, gender specific products, products for ultra-poor and meso-enterprise loans, debt swapping, social/emergency needs, consumption and launching finance against warehouse receipts, solar lighting, LPG connection, and environment friendly products, and low-cost toilets, etc. The programme will not only support development of these products but their pilot testing and roll-out.</p> <p>It will also help in providing various escort services to the poor clients through an Implementing Agency (usually NGO).</p>
(ii)	<p><u>Women empowerment</u>: If used more effectively, the client centre meeting can be a good platform for discussing gender and women's empowerment issues. One possible way is for the MFIs to train one or two committed women from each centre as group facilitators.</p>	<p>The PPA interalia, took cognizance of project achievement in terms of social empowerment for women including more ownership of assets, involvement in enterprise management and stronger decision making powers in the family, directing at success of empowerment process. Group dynamics / continuous interaction among members in group meetings etc. all helped to this end.</p> <p>Suggestion regarding training of group facilitators, the concept has already been built into Poorest States Inclusive Growth (PSIG) programme being implemented by the Bank with DFID collaboration.</p>
(iii)	<p>Support to smaller MFIs in underserved regions: SIDBI needs to work with the Government of India and RBI to aim for an early enactment of the Microfinance Regulation and Development Bill as it is critical for these smaller NGO-MFIs to become regulated entities in order to operate in these difficult areas. Certain synergies also need to be developed with the National</p>	<p>The Bank is already engaged in providing need based assistance to DFS, GoI, for enactment of MFI (DR) Bill 2012. SIDBI was also represented on Committee which drafted the bill. However, in so far as enactment of it into law is concerned, GoI is seized with the matter.</p> <p>As regards developing synergies with National Rural Livelihood Mission, SIDBI has requested DFS, GoI for facilitating a meeting with MoRD, GoI, for fostering collaboration between SHGs promoted under National Rural Livelihood Mission and MFIs.</p>

	Rural Livelihoods Mission to maximize impact.	
(iv)	<u>Research and studies:</u> There is a need to have high quality publications and dissemination strategies to widely publicize the good quality work done and also to capture any early warning signals that may lead to crisis. Reliable and real-time data for the microfinance sector need to be available	Comments as at SI no 11 pre page.  In addition, the Bank in collaboration with MIX has created an India Microfinance Platform for reporting of operational and financial data by Indian MFIs on regular basis, so as to have real time access to the data of Indian MFIs, alongside enhancing transparency in the sector.
(v)	<u>Regulation and supervision:</u> RBI is in the process of establishing a self-regulation organization, and MFIs associations have an important role to play there to monitor effective implementation of codes of conducts, social performance and audit systems. SIDBI could also play a pivotal role in this area considering the leadership role it has played in the past.	SIDBI has been continually engaged with RBI and has been providing various inputs for drawing the model for SRO including the proposed role, the SRO is envisaged to cater.  SIDBI is committed to provide necessary support in establishment and running of SRO.

**3) Ratings of the Project Completion Report (PCR) documents –** The Project Completion Report Validation (PCRv) rating is 3 (moderately unsatisfactory). The observation of PCRv and our comments are as under:

<i>Sr No.</i>	<i>Particulars</i>	<i>Comments</i>
1	Scope: The document only partly follows the annotated outline in the IFAD's guidelines for project completion report. All annexes are missing.	All the aspects of the project were dealt in the Project Completion Report. PCR was submitted to Shri Shaheel Rafique, Implementation Support Specialist, IFAD India Country Programme during November 2009. The report was appreciated by IFAD Team as very comprehensive and clearly written.
2	Quality: The PCR contains only very essential information. It is weak in its assessment of most project performance criteria. In some instances, the PCR is providing inconsistent figures (for example in page 12, the PCR states that the project benefited 6.4 million people while on page 17, the figure has increased to 6.6 million)	The corrected figure is 6.6 million beneficiaries. The same was provided to PPA Team of IFAD vide mail dated 23/11/2012 and error was regretted.
3	Lessons: The lessons learned are very schematic, and they are in line with the whole	PCR provides the realistic elements of lessons learned during the project period. Innovation such as Lenders Forum, COCA, Tenets of

	document. However, a more in-depth reflection would have been needed.	Responsible Micro Finance Practices, India Microfinance Equity Fund and Poorest State Inclusive Growth (PSIG) are the outcome of the post NMSP period of three years from FY 2010 to FY 2013. Though in-depth analysis of lessons learnt may not have been included in PCR, the outcome indicates the same.
4	Candour: The tone of the report is overall positive. Some not so positive issues have been omitted or just briefly mentioned.	Considering the focus of NMSP, the emphasis of PCR was on the Target action/achievement for overall positive development. Accordingly, some issues of project with lesser focus were dealt in brief.

As PCR was complete in all respects and was also appreciated by IFAD Team as very comprehensive and clearly written, the low rating of PCR may be relooked at by IFAD.



International Fund for Agricultural Development


Via Paolo di Dono, 44 - 00142 Rome, Italy


Tel: +39 06 54591 - Fax: +39 06 5043463

E-mail: [evaluation@ifad.org](mailto:evaluation@ifad.org)


[www.ifad.org/evaluation](http://www.ifad.org/evaluation)

[www.ruralpovertyportal.org](http://www.ruralpovertyportal.org)

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