

Microfinance India Conference - 2007

Day 1

Inaugural Session

Hon. Minister of Finance P. Chidambaram gave the inaugural address to the conference. While much of the FM's speech was congratulatory, he did spend some time discussing the proposed microfinance bill and criticisms that have been leveled at it. Chidambaram addressed the concern voiced by many in the microfinance community that the bill was incomplete because it leaves out NBFCs from its purview by saying that the current bill was just a start and that there would be more to come later. (Most of the largest Indian MFIs are registered as NBFCs and by some estimates, up to 90% of microfinance clients are now served by an MFI registered as an NBFC.)

Session I: State of the Sector Report Presentation

Prabhu Ghate kicked off the conference by unveiling his *Microfinance in India: A State of the Sector, 2007* report. The 2007 version of the report, like the previous year's version, gives a complete overview of the state of the Indian microfinance sector. This year, Ghate chose to include chapters on technology, SHG federations, urban microfinance, social performance, the proposed microfinance bill, and MFI performance – subjects which had been excluded from the previous year's report.

Ghate began by pointing out that the Indian microfinance sector has witnessed yet another year of phenomenal growth. Yet despite this growth, there are still significant concerns with regard to the outreach of microfinance in India according to Ghate. Data increasingly shows that the very poor form only a small portion of microfinance clients. In addition, Ghate also highlighted the potential for the RBI's intensified scrutiny of "partnership model" lending to lead to a general shortfall in funds for on-lending.

In his discussion of the microfinance bill, Ghate reiterated the concern, already expressed by numerous others, that NBFCs are excluded from the purview of the bill. Ghate also voiced the concern that the bill only allows certain organizations to collect small, compulsory savings. According to Ghate, savings products of this type are unlikely to be particularly to microfinance clients whose preference is for savings accounts which allow for deposits of variable amounts and frequency.

Session II: Financial Inclusion The session focused broadly on the issue of financial inclusion. The keynote address was delivered by Mr Vijay Mahajan, Chairman, Basix, who was also a member of the Committee on financial inclusion. Mr. Mahajan argued that our definition of what constitutes "financial inclusion" should be revised. More specifically, according to Mahajan, the most important financial products from the perspective of the poor are flexible savings accounts and insurance rather than microcredit as is commonly believed. Viewed from this perspective, India still has a long way to go before it can claim to have achieved 100% financial inclusion.

Session III: Addressing outreach: Role of Formal Financial Institutions: Breakaway Sessions

There were four breakaway sessions conducted simultaneously after lunch. Unfortunately, we have no useful notes for these sessions.

Session IV: Private and Social Equity in microfinance: Over the past year, the Indian microfinance sector has witnessed a surge in interest in the sector on the part of commercial investors. In this session, leading investors and investees shared their perspectives on what the future holds in store for equity in the microfinance sector and offered their advice to microfinance practitioners considering equity investments.

Blaine Stephens, an analyst at the Microfinance Information Exchange, kicked off the session by arguing that the financing needs for the Indian microfinance sector as a whole will increase dramatically over the next few years. His ppt was backed up with a lot of data from the MIX and very persuasive.

Vikram Akula, CEO of SKS, emphasized that this is currently an investee's market and MFIs should bargain hard. He also cautioned MFIs to beware of investors that are in it only for short term gains as they may create a lot of tension (because, for example, they may advise MFIs to raise interest rates in places where they are the only MFI operating).

Caitlin Baron, of the Michael and Susan Dell Foundation, briefly discussed her foundation's strategy for equity investment. According to Ms. Baron, the Michael and Susan Dell Foundation has chosen to focus on smaller more socially oriented MFIs and likes to gather as much data on social impact as possible before making an investment.

Mark Stoleson, of Legatum, a private equity firm which has recently made investments in Share and Intelcap, stressed the importance of good governance in allaying investors concerns.

The session was moderated by Mr Vineet Rai, CEO, Aavishkar.

Investment Fair: The investment fair served as an opportunity for investors such as Legatum and Emchaf to link up with MFIs seeking funds. About twenty investors participated.

Day 2

Session VII: Impact and social performance This session emphasized the importance of impact evaluation for the microfinance sector. Firstly, as a sector with a social mission, assessing impact is useful in learning to what extent the sector is fulfilling its goals. Secondly, impact assessments are important to improve current practice of microfinance and to set best practices for the sector.

Mr. R.M. Nair, the Chairman of SIDBI, presented findings from a seven-year impact assessment study to gauge the impact of microfinance on a national level. One of the key merits of this study is the fact that it is longitudinal, that is, conducted over time. While some claims of the microfinance sector such as its impact on women's empowerment and its inclusion of the severely disadvantaged sections of society into the ambit of formal finance are only partially supported, the study shows that microfinance programmes have to some extent helped low-income women to attain a better standard of living.

After this presentation of this study, Ms. Smita Premchandrar of Sampark provided a summary of 69 impact studies conducted in India. The studies show that microfinance has resulted in increased savings, assets, improvements in nutrition and education levels and greater women's empowerment. However, the methodologies for these studies are often flawed with little detailed information, lack of a longitudinal component and no benchmarks. As a result, there is need for deeper commitment to clear and rigorous impact assessments.

Ms. Annie Duflo, Head of Centre for Microfinance provided an overview of randomized impact evaluations. The methodology for these evaluations, while expensive and time consuming, is rigorous enough that it ensures that the results are dependable and accurate.

Session VIII: Missing services and products -Breakaway Sessions

Session c: Micro-housing: Ashish Karamchandani of the Monitor Group provided the background for the session by sharing a presentation on a World Bank-funded Monitor study on the market potential for rural housing. The study examined the housing needs and capacity to pay of various different income groups in the rural context. While those earning Rs. 10,000 per month lived in good quality housing, those who earned below Rs. 4,000 did not have the capacity to take on a housing loan. Thus, the greatest potential for micro-housing loans was found to exist in the Rs. 4,000 – 6,000 per month bracket.

During the panel discussion, panel members brought up several of the challenges inherent in providing micro-housing loans using MFIs as the delivery channel. Firstly, housing loans entail different lending methodologies which many MFIs may not be able to adapt to. Secondly, since these loans are larger, there may be potential issues with repayment. Thirdly, since this is a loan for housing, it may be necessary to collect land or house title as collateral. However, these are not always readily available in rural areas. As such, one of the panel members suggested that it would not be appropriate for MFIs to undertake the entire risk of the loan. MFIs are best suited to be collection agents in the manner of Business Correspondents in the micro-housing context and may share part of the risk. At the same time, it was emphasized that there was vast unmet demand and thus, represented a potential opportunity for the microfinance sector in India.

Session d: Technology: In this session, two technology service providers, FINO and Airtel, discussed the potential for their technologies to change the landscape of microfinance.

Maneesh Khera, CEO of FINO, gave a brief overview of the products his company has produced for the microfinance sector which includes a backend core-banking solution customized for MFI needs, smartcards, and a mobile point of sale device designed to record microfinance transactions. Mr. Khera also argued that while smartcards have huge potential to increase efficiency in microfinance, the up-front investment is also large and thus overcoming the hurdles to this investment will require the cooperation of all parties that stand to gain from the distribution of smartcards (e.g. – local and state governments).

Mr. Pawan Bakshi of Airtel discussed the potential for mobile phones to increase financial inclusion. Mr. Bakshi's presentation was broad in scope and did not cover specifics of any Airtel initiative in this area. In private discussion after the panel, Mr. Bakshi indicated that Airtel has plans to allow Airtel customers to make transfers from one bank account to another in the near future (there was an ET article saying that this product had already been released but it is actually still a few months away) and that they plan on allowing mobile to mobile transfers for customers without bank accounts at a later date. Mr. Bakshi stressed that while Airtel is interested in allowing customers to remit money, they are not interested in allowing customers to store a balance of cash on their Airtel account.

Session IX: Enabling Environment - Addressing the Regional Skew: Smt Vasundhara Raje, Hon'ble Chief Minister of Rajasthan, in her key note address, provided an overview of Rajasthan's experience with microfinance. The Chief Minister was emphatic in her belief that all stakeholders in microfinance must work together towards a common vision for long term goals to be realized. Crucially, she also shared her viewpoint that MFIs must be allowed to charge interest rates that allow them to cover costs, provided that these rates are not exploitative. Dr C Rangarajan, Chairman, Economic Advisory Council to Prime Minister Office chaired the session.

Session X: What's Wrong with Microfinance?

...a lot, according to Professor Malcolm Harper, a long time researcher and practitioner in the field of microfinance. Dr. Harper argued that the current level of enthusiasm for microfinance is out of proportion to microfinance's current impact and future potential. According to Harper, the services of most MFIs are still quite poor. He pointed out that most of the attendees at the conference would never tolerate such practices as mandatory weekly meetings from lenders or be willing to accept the high interest rates of most microfinance lenders. Harper went on to say that the empowerment benefits of microfinance are grossly overrated ("a little loan money is not going to erase three thousand years of caste discrimination") and that microfinance loans only rarely give rise to new businesses and even more rarely generate employment opportunities.

Valedictory Session

The Valedictory Session was a summary of the conference with highlights from the progress made by the sector in the year 2007. Professor Malcom Harper provided the sector participants with some food for thought for the year ahead by setting some goals or targets for the year ahead.