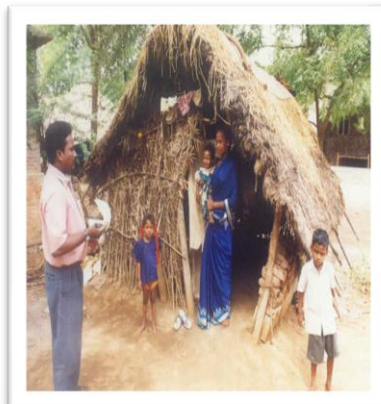


“Microfinance - A game changer for Financial Inclusion”

Dr. Vidya Sravanthi
Managing Director



Our Inspiration



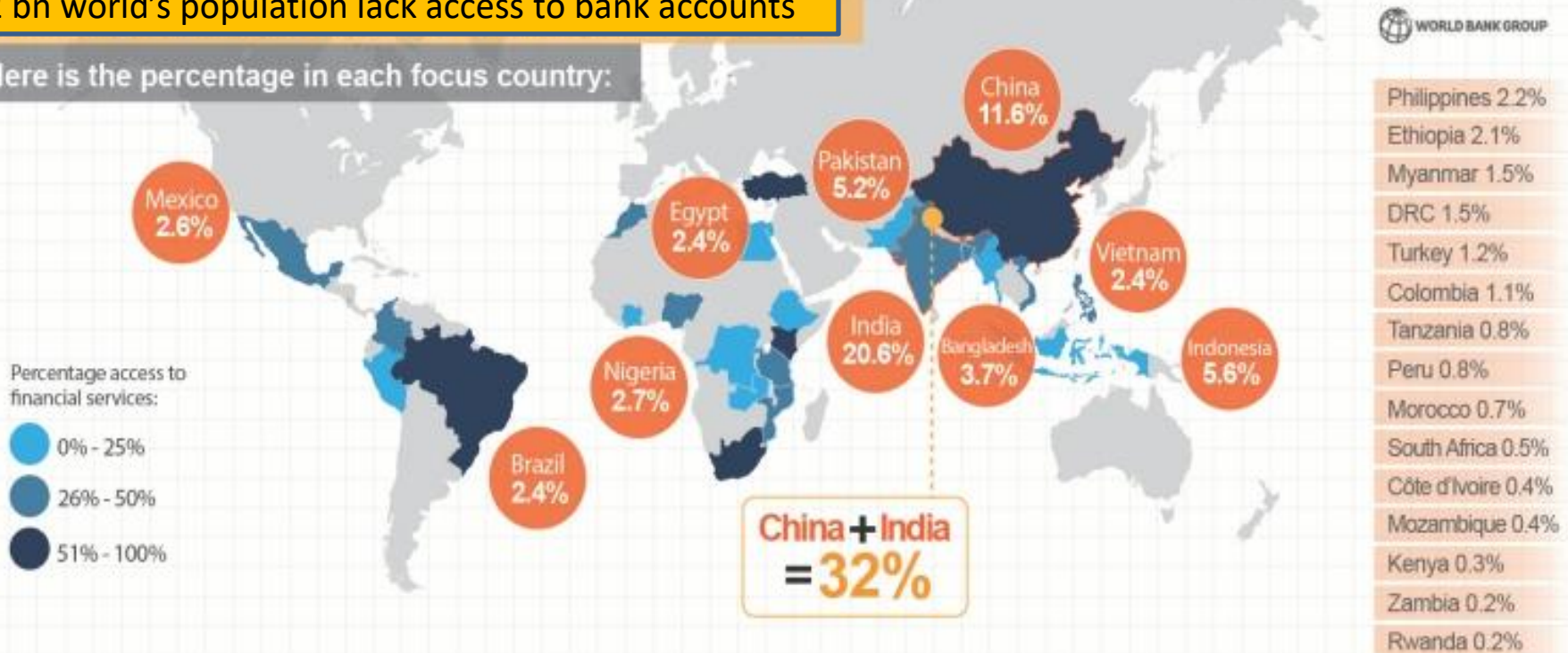
“A world in which all people have access to high-quality, affordable, market-led financial services.”

Financial Inclusion - Interesting Facts

Though 53% of India's adults have bank accounts, 60% of it have '0' balances

2 bn world's population lack access to bank accounts

Here is the percentage in each focus country:



25 Focus Countries = 73% of the world's financially excluded

Financial Inclusion - Interesting Facts ~ India

- ❑ Robust growth despite slowing global Economy
- ❑ GDP of the Economy accounted >7.5%
- ❑ Foreign Exchange Reserves touched highest ever - \$350 bn
- ❑ India's population crossed 1.35 bn
- ❑ 30% Population still live below poverty line (~400 mn)
- ❑ Majority of the rural households do not have access to formal Credit

Banking Coverage in BRIC Countries

BRIC Countries	ATMs per 100,000 people	Bank Branches per 100,000 people
INDIA	9	11
RUSSIA	182	38.2
BRAZIL	119	46
CHINA	50	24



Source: World bank country data

- ❑ Group lending practices were initiated in early 70s through NGOs and credit cooperatives
- ❑ Government has **initiated various financial inclusion programs and continued priority sector status** to these initiatives
- ❑ Govt's **IRDP, NRDP** and other development programs could not meet its objectives and reach due to substantial element of subsidies and lower repayments (<25%)
- ❑ **Microfinance was not a commonly known term till 80s & 90s** when a few NGOs/Cooperatives came up with group based Credit delivery model
- ❑ **SHARE and Asmitha (1989)** along with SEWA and BASIX were the pioneers in such innovative ventures
- ❑ Microfinance Action Research projects started in 1989
- ❑ 1999-2002 - **Transformation into a regulated MFIs (NBFC)** - 'SHARE, ASMITHA
- ❑ Simultaneously, **SHG & MFI movement gained momentum with the support of NABARD, SIDBI and the RBI**

- ❑ **Not Viable for Banking sector** – Due to high transaction cost, small loans
- ❑ MFI's wide spread of network and the **door step delivery model** helped the banking reach the last mile
- ❑ NBFC-MFIs are becoming **more efficient and innovative**
- ❑ **OPEX ratio has come down drastically** with the usage of technology
- ❑ Have strong collaboration with banks, BC and Technical Service Providers
- ❑ NBFC-MFIs are **working across 570 districts in India with a network of 12500** branches
- ❑ The rapid growth of MFIs reach allows the servicing banks to improve efficiency and provide multiple products
- ❑ Access to credit allows poor people to take **advantage of economic opportunities**



Source: Rangarajan Committee Report on Financial Inclusion 2008

- ❑ A primary requirement for all these financial inclusion products is sufficient Income to save after meeting consumption needs
- ❑ >50% of the rural households depend for their Income on casual labor and another 30% depend on agriculture
- ❑ The average earning of a rural household is less than Rs 5000/- pm
- ❑ *Credit and Microfinance plays a key role in the increase of household income of the underprivileged and to be part of the mainstream financial sector*

Source: Socio-economic Caste Census 2011 & AIDI Survey

Microfinance in the world

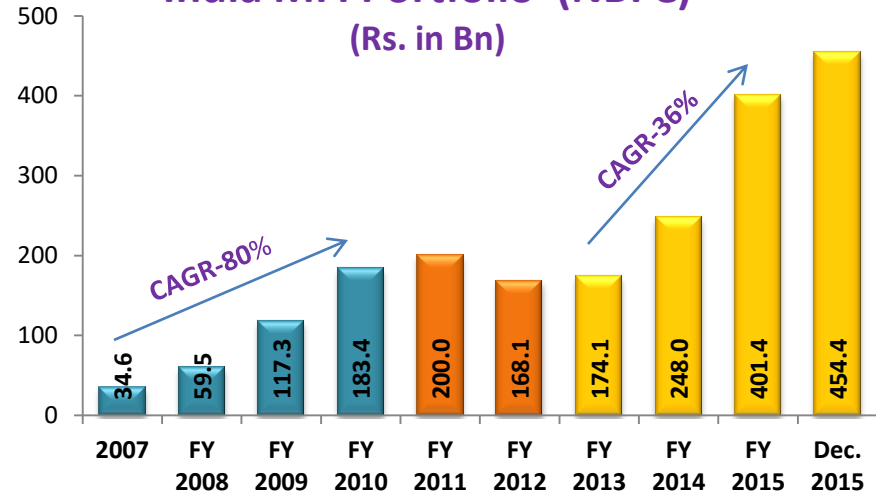
- More than 1500 regulated MFIs working across the globe and
- Reached out to 12 crore households
- Loan portfolio stood at 100 bn USD
- Witnessed 18 % CAGR during FY 14-15
- Latin America, Caribbean and East Asia accounts half of the world's MF activity

Microfinance in India

The Microfinance Industry has been recognized as one of the key platforms for the Financial Inclusion

- The Industry have helped in reaching 30 mn unbanked population in India
- Market size Rs 1.1 lakh cr including SHGs
- Banking and SFB Licenses to 9 MFIs
- The regulator recognized MFIs are the extended arms of Banks

India MFI Portfolio (NBFC) (Rs. in Bn)

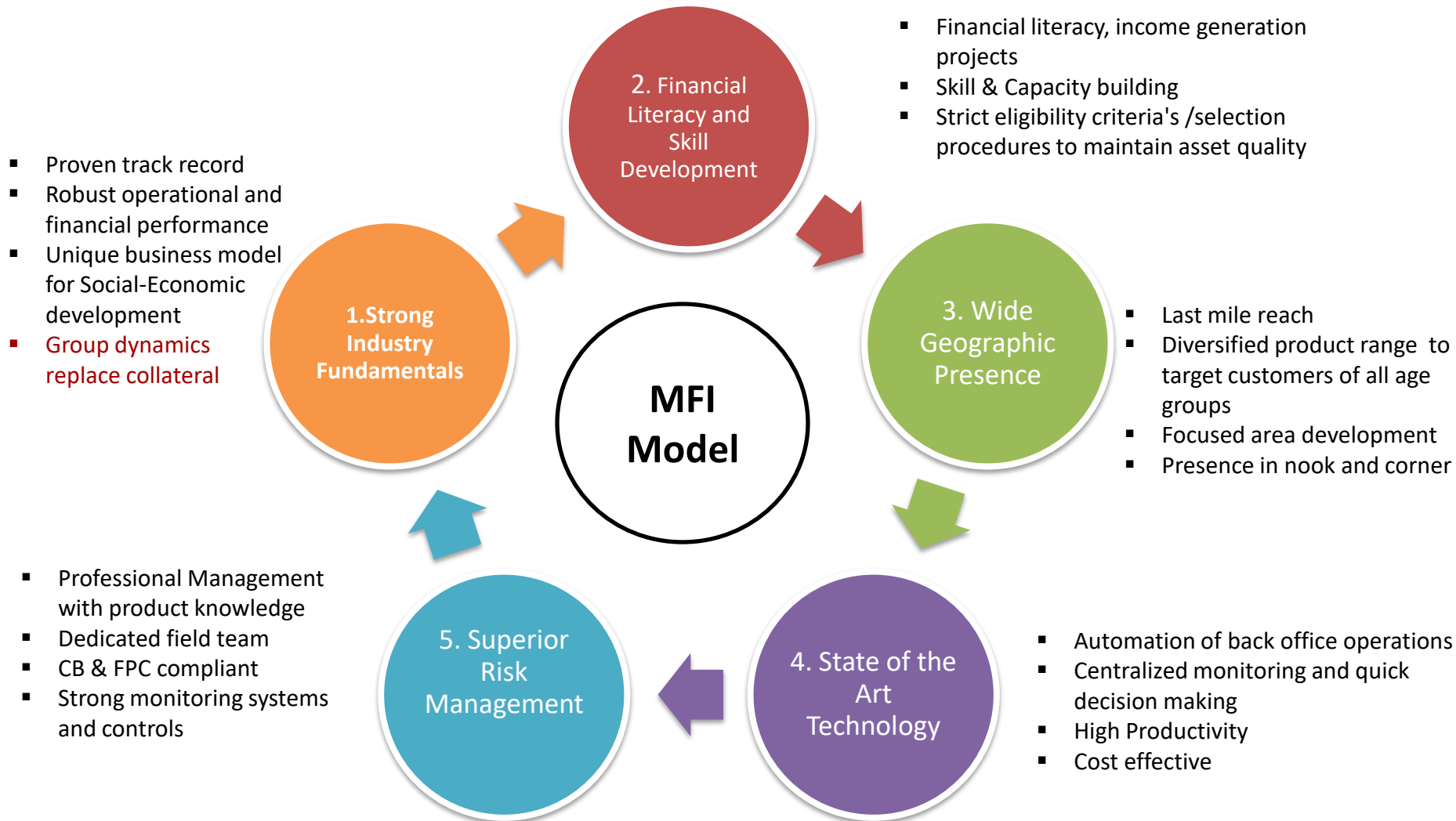


Consolidation & Standardization

- Witnessed 80% CAGR during FY 06-10
- Sharp Consolidation in FY10-12 (AP)
- **Key to success:**
 - Size ,Cost rationalization
 - Wider geographic coverage
 - Introduction of new products

- ❑ Creation of a **new category of MFIs as “NBFC-MFI”** and endorsing NBFC-MFIs as “extended arms of banks”.
- ❑ Launch of an ambitious financial inclusion scheme called **Pradhan Mantri Jan-Dhan Yojana in 2014**
- ❑ Introduction of **Small Finance Banks and Payments Banks**
- ❑ **MUDRA bank** to fund the un-funded and refinancing facility to MFIs
- ❑ **NBFCs are permitted to act as BCs to Banks** and offer multiple financial products
- ❑ TRAI issued guidelines which require mobile operators to provide banks USSD channel **access for mobile banking.**
- ❑ Continuation of the **Direct Benefit Transfer scheme via Aadhaar** and Government to People G2P payment system
- ❑ Universal reporting to **Credit Bureaus**, appointing **SROs** for MFI industry (**Sa-dhan and MFIN**)

“MFIs – Robust model for Financial Inclusion”



Impact of the Program:

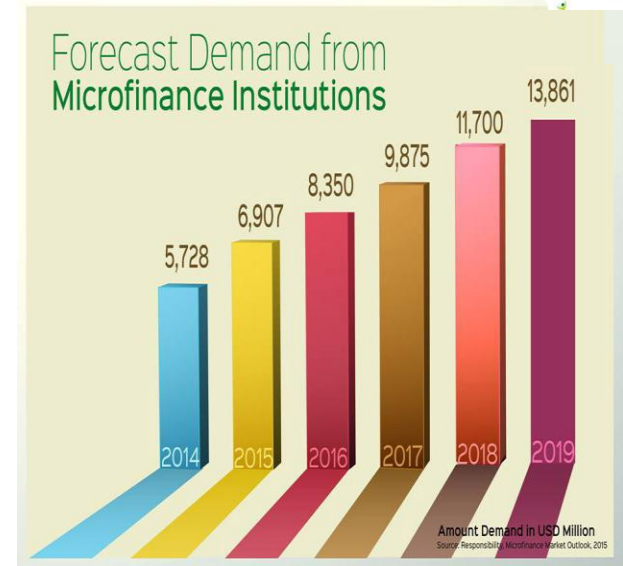
Results of the Impact assessment study conducted by Bath, *Sheffield & Sussex Universities in UK*

- ❑ 76.8% of the clients experienced significant reduction in their poverty
- ❑ Women, now, actively participate in family decisions.
- ❑ Most of the members' children are being sent to schools.

UNDP has conducted a study on women empowerment in SHARE's micro finance program.



- ❑ **As per 'ICRA' report:**
 - ❑ Market size : Rs. 1.1 lakh cr (including SHGs)
 - ❑ Potential size : Rs. 3 -3.4 lakh cr
 - ❑ MFIs can grow at 30-35% over the next three years .



- ❑ **Double bottom line – potential opportunity for social (76.8% of the poor experienced significant reduction in their poverty) & financial returns (ROE greater than 20%)**
- ❑ **Microfinance - A special class of asset – Low correlation with global recession & high asset quality**
- ❑ **Policy environment – Promoting financial inclusion, regulated interest rates, priority sector status, MUDRA Funding, Credit Bureau process**

- ❑ Policy environment – Savings, Remittance, Pensions (MFI Bill)
- ❑ Political/communal interventions (AP MFI crisis)
- ❑ Dependence on debt funds from Banks
- ❑ Managing Growth: Responsible lending & Portfolio quality
- ❑ No common ID/KYC to ascertain credit rating
- ❑ Non-adherence of Credit Bureau mechanism for lending to SHGs
- ❑ Building up staff commitment & loyalty, values & culture

- ❑ Clients - Improvement in Quality of Life
- ❑ Staff - Career Opportunity and Growth
- ❑ Banks - Business Opportunity
- ❑ Investors - Return on Equity
- ❑ Government:
 - Impact on Poverty Reduction
 - Socio Economic Development
 - Employment creation
 - Taxes/duties

Thank You!!