

Republic of India

National Microfinance Support Programme Project Performance Assessment

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 21st 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.