



**Asia-Pacific  
Economic Cooperation**

---

**2011/GFPN/WKSP/006**

Session 1

## **Recent “Crisis” in India and Other Parts and Lessons for Commercial Microfinance**

Submitted by: BASIX



**Workshop on Microfinance Best Practices  
Ha Noi, Viet Nam  
7-8 April 2011**

## Recent “Crisis” in India & other parts and lessons for commercial microfinance

### APEC Workshop on Microfinance Best Practices

7<sup>th</sup>- 8<sup>th</sup> April 2011 at Sofitel Plaza Hotel  
Hanoi – Vietnam

Subhash C Jindal  
Vice President – BASIX .India  
(based in Dili -Timor Leste)



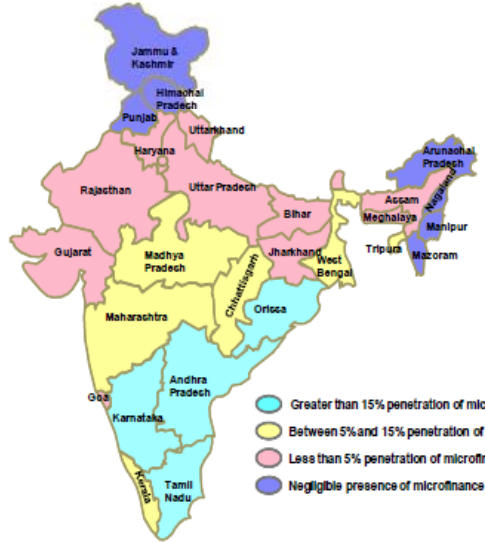
*Managing Livelihoods...*



## Contents

- Market potential of MF in India
- MF ‘crisis’ in India
- Impact – New Gen. MFIs
- Brief on ‘crisis’ of some other places
- Learning
- Concerns
- Way forward

## Market potential of MF in India – The Need



**110,000,000 financially excluded households...1/3 of the world's poor**

**USD 243 bil demand in India**

**4 times larger than the IT sector in India**

**Min Capital required to cater to this Demand**

**USD 40 bil**

Private and Confidential

3

## Current Indian Scenario of financial inclusion

- About 56 % of the poor still borrow from informal sources.
- 70 % of the rural poor do not have a deposit account
- 87 % have no access to credit from formal sources.
- Less than 15 % of the households have any kind of insurance.
- Negligible numbers have access to health insurance (0.4 %) and crop insurance (0.2 %).

Source: MIT India Reading Group, 2009

Private and Confidential

4

## Recent Developments in the MFI Space in India

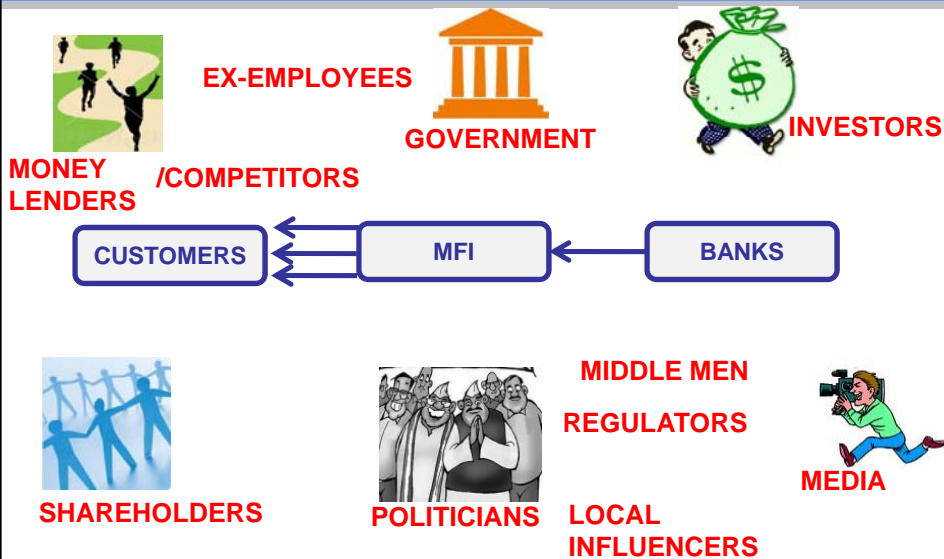
Date	Developments
15 <sup>th</sup> Oct 2010	GoAndhra Pradesh announces - AP MFI Ordinance 2010
24 <sup>th</sup> Oct 2010	MFIN files a petition in court challenging the Ordinance
2 <sup>nd</sup> Dec 2010	AP assembly passes the Ordinance as a Bill
Jan 2011	RBI constituted Malegam committee submits a report recommending regressive regulation

MFIN- Microfinance Institution Network

Private and Confidential

5

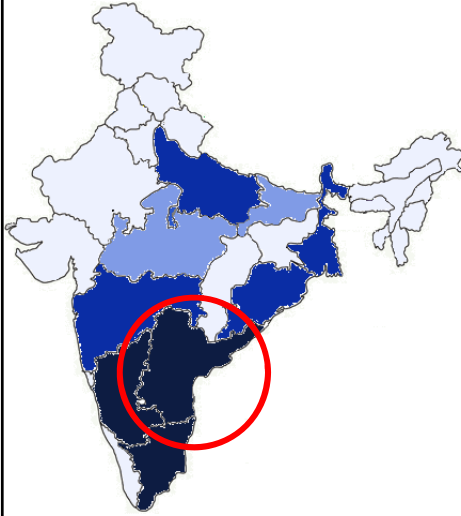
## The CLIMAX



Private and Confidential

6

## What Caused the CLIMAX?



**Concentration in South – Rest of India untapped**

**Myopic Stakeholders – unable or unwilling to see potential?**

**Focus on few areas leading to problems of..**

Multiple Lending

Political Risk

Over Indebtedness

Unethical Practices

Competition (reducing margins)

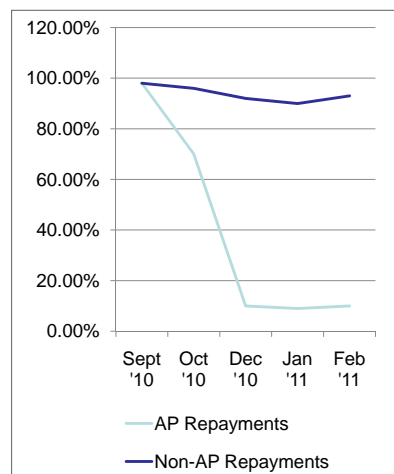
Declining Portfolio Quality

Private and Confidential

7

## Impact on MFI Industry

- Limits client choice in accessing credit by way of :
  - Compulsory monthly repayments
  - NOC from SGHs before availing loans
- Repayments in AP have drastically reduced from 99% to around 10%. Impact seen pan India
- Currently about USD 2 Billion of Bank's lending in AP at risk owing to the Ordinance
- About USD 6.6 Billion of Bank's lending at risk as the problem has spread to other States
- Cap on interest rates and credit limit per household (Malegam Committee Report) will impact the mission of livelihood promotion and inclusive growth.
- Immediate need – overarching central legislation for Microfinance sector**



Private and Confidential

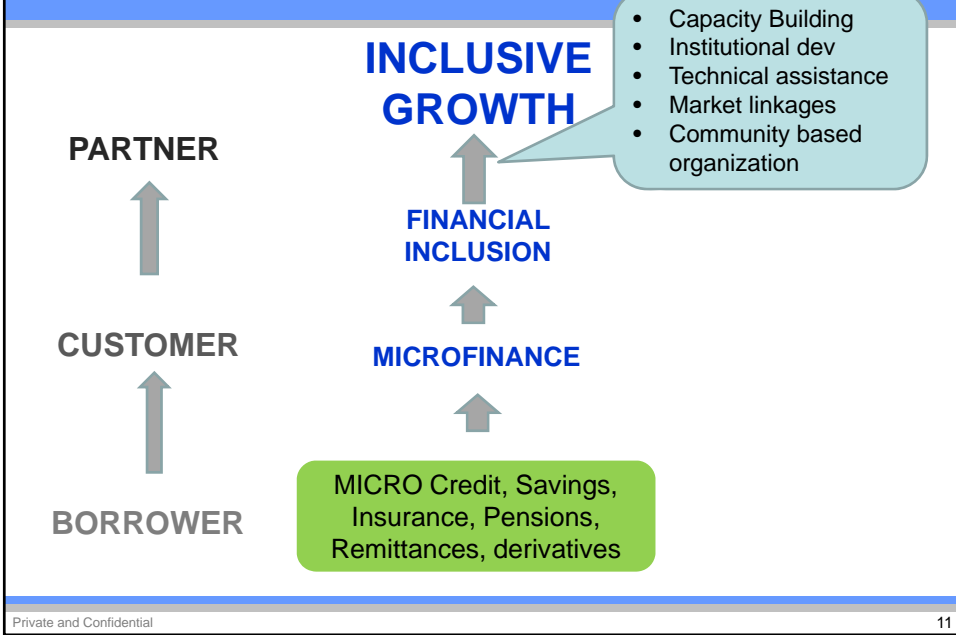
8

## Industry's Response to Stimuli

- MFIN Code of Conduct adopted for promoting responsible lending and client protection.
- Enforcement mechanism put in place to control multiple lending.
- Credit Bureau covering Microfinance clients promoted. To be fully operational by March 2011.
- Helpline for Microfinance clients put in place.
- Ongoing dialogue with Ministry of Finance, RBI and IBA to **complement their efforts in enabling Financial Inclusion**

MF sector is heading towards ---

## The Next Gen. MFIs



## BASIX – Engaged in Promoting Livelihoods



## Brief on 'crisis' in other places

Private and Confidential

## World Map of recent microfinance crisis

( Source : Basic from CGAP note)



## Brief on crisis in other places

- **Pakistan**

The borrower groups supported by community leaders in central part of Punjab (out skirt of Lahore) refusing to repay their loans in late 2008 in the impact was initially concentrated in one MFI, but it ultimately effected larger chunk.

- **Nicaragua**

Delinquency crisis affected all 22 major MFIs, largely in pocket of northern region by the 'no payment' movement with support from the ruling party.

- **Bosnia and Herzegovina**

Higher %age of consumer finance and multi loaning under stiff competitions by MFIs had a hit on repayments in late 2008 closely following the recession in Europe, nearly all the 12 largest MFIs experienced a sharp rise in PAR, reaching 7 percent in June 2009

## Continued --Brief on crisis in other places---

- **Morocco**

The delinquency crisis in the 4 large MFIs grew rapidly due to poor managerial and control systems and the problem busted sharply on merger and acquisition of a large distressed MFI became public

- **Bangladesh**

Ouster of Professor Muhammad Yunus from 'Grameen Bank' on ground of age with President Hasina Wajed's remark that he had "spent years sucking the blood of the poor". It may be linked to once he expressed his political ambitions

- **Ukraine**

Risk of foreign currency loan risen too high to be managed by clients and ultimately by MFIs

## Key learning

- Growth of MFIs need to be supported with adequate capacities and risk mitigation system
- Foreign currency risk need to be managed at a scale so passing it to clients need to be avoided.
- Microfinance is NOT appropriate for 'white consumer goods'
- Indiscriminate multiple lending creating over debt on poor is 'erosion' of disciplinary norms of MFIs.
- Making access to use of Credit Bureau by MFI is a welcome note.
- Need to be timely suitable regulatory norms to maintain disciplinary norms by all stakeholders.

## Concerns

1. Is it necessary to have added social bottom line for well regulated commercial MFI or it is to be brought in by regulatory norms ?
2. Do the salaries of CEO and others to be capped or kept open to attract the best talent to the industry ?
3. How to determine timing and limit on interest rate(s) so it does not become growth retardant or 'usurious' ?
4. How to control political announcement on Loan waivers / no repayments ?
5. How to make usage of Credit Bureau mandatory by MFIs ?
6. How to avoid erosion of self disciplinary norms by MFIs
7. Retaining 'Freedom' of choice with clients between cheap( difficult access) versus costly loans (tailored to needs)

## Way forward

Let me stop here as it is to be decided by all  
us during the workshop . . . . .

Just like to end with –  
' Let us do microfinance in right manner to  
harness its full potential and also avoid any  
more 'Cry..Shish..' ,

# THANK YOU

[scjindal@basixindia.com](mailto:scjindal@basixindia.com)

Mob : +670 7756404