



No More Micro

The efforts of MFIs have ensured that the rural sector gets its fair deal of attention

The microfinance sector has recently witnessed the entry of a huge number of private sector companies riding on the back of funding from private equity companies into the business. The MFI story was mainly painted by NABARD through a few private banks and their RRBs. A study by Intelicap, a social sector advisory firm, said Indian microfinance institutions grew at a Cumulative Annual Growth Rate (CAGR) of 96% from 2007 through 2009, attracting twenty-five equity deals from April 2008 to September 2009 worth a total of Rs 12.07 bn. MFIs have reported growth in outstanding portfolio at a CAGR of 80% and Return on Equity (ROE) of 30% between 2003 and 2008. According to the 2008 microfinance industry report by Intelicap, the current Indian MFI market is around \$1.5 bn with a penetration of around 10%,

while the overall market size estimated to be as high as \$50 bn.

An Eagle's Eye View

The MFI sector can be described as a mixed culture where large and small companies, and those run by self-help groups have been able to make a remarkable presence. "The industry cannot be described as fragmented but is scattered across India, and can be described as very effective initiative. The industry's outstanding loans are approximately Rs 12,000 crore and involve a little lower than 2.5 crore customers," says Viren H Mehta, director, Ernst & Young India

According to Suresh K Krishna, MD, Grameen Koota, "The sector can be fairly described as an organized one that comprises both small and big entities. This segment needs to be regulated enough to ensure that it is able to

offer holistic services. In the early days, growth came from the urban and semi urban areas but now concentration should be on the rural areas."

Dewang Neralla, director, Atom Technologies has a different piece of advice. He says, "With so many players existent in the market, linking every end of the business and lending infrastructural support to it can definitely make the difference."

Hurdles

MFIs need to provide credit to people who have no records of documented credit history. While this has been addressed by primarily lending to women, who have been seen in the sector as more responsible borrowers, and to joint liability groups or self-help groups--still the lack of credit worthiness checks or infrastructure for the same poses a challenge to expanding

offerings and covering newer regions. According to Hanuman Tripathi, CEO & managing director, Infracsoft Technologies, this challenge can be addressed. He says, "The latest CIBIL move will go a long way in making informed lending decisions and managing risk in the long term."

While telecom penetration in India is one of the fastest in the world, connectivity still has huge gaps in deep rural areas which proves to be an issue for MFI companies. Without mobile connectivity in all parts of the country, MFIs will find it difficult to reach masses in a secured fashion. Last mile connectivity is crucial for IT systems to be useful. We must not forget that without IT systems being in place, no industry that needs mass reach can afford to grow.

Since MFIs operate at different levels of suburban and rural markets, they need to reach out to the people using different delivery channels. Where they cannot set up a branch, for many reasons, they need agents and correspondents who can work on foot. In markets where it is feasible, MFIs can even set up ATMs or kiosks to enable self-service. In logistically challenging areas, mobile/PDA type of devices become key to deliver error free, secure and quick services. The sustainability of an MFI depends partly on its ability to attract, retain and effectively deploy human resources at all levels. There is a shortage of good quality staff at all levels, from village level barefoot accountants to back office systems administrators. The more senior level staff usually have better alternative opportunities in the mainstream. Sa-Dhan, the newly established association of MFIs in India is offering training programs to senior MFI staff. EDA Rural Systems, the Micro Credit Support Group and BIRD are also offering such programs regularly.

Considering this, agent management becomes key when MFIs employ third party officials for their disburse-



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ment and collection effort. While it is probably not a big problem while operating at a smaller scale, effective agent management becomes important in order to manage costs and achieve better bottom line. "Increasingly, international funding houses that aid or invest in MFIs are seeking results in terms of social impact that their investee's MFIs are making. A well designed IT system can help capture and report these requirements of donors and investors," informs Tripathi. Mehta says, "If this sector is governed properly, efficient players will enter the race, and with proper supervision and the right direction provided to the sector, the picture of rural India can undergo a complete change."

From the IT perspective, Neralla says, "In any new industry, lack of automation can stop it from excelling and this has been clearly realized by even MFIs. The right kind of infrastructure will help in going ahead in leaps and bounds. The backend IT system is fairly well developed but frontend solutions are important for MFIs as they can ring in cash flow."

Sky is the Limit

The industry is growing at a fast pace and with it the need for risk management, to ensure that the industry grows properly, is growing too. And offerings are tailored according to customer needs. Some clients need larger loan amounts, a monthly infusion of cash, or daily loans (for example, auto drivers who rent their autos on a daily basis). Hence, loan officers need to be trained on how these different loan products work, and which type of client may benefit from these different products.

Seconding this view Mehta adds, "MFIs should concentrate on lending for income generating assets rather than non-income generating assets, which act as a trap. Entities need to address this aspect as they become large organizations. Micro housing is another area where MFIs need to step up their presence. There is a lot of need of microfinance in mid level, smaller towns, etc. The new breed of MFIs could possibly take up these areas. There is a sea of opportunity, but low cost of credit delivery and connectivity remain the big issues."

IT to the Rescue

Many of the challenges that the MFI sector faces today can be addressed by leveraging IT and mobile banking technologies. Given that the majority of MFIs are new generation organizations, their entire growth is dependent on IT systems. If they fail to do so, then the MFI industry will have to recruit large numbers, will be fraud prone, will not be transparent and without IT systems even the promoters of MFI companies will not know what their investment is generating for them in terms of profitability, credibility or social impact.

The IT sector can contribute to and also encash a lot from the microfinance sector. There is a lot of scope for IT solutions for the microfinance sector in terms of building cost effective high value solutions for:

- Offering better customer service by making MFI transactions easier and secure for borrowers, many of whom are illiterate and/or financially illiterate
- Reducing operational costs using multiple delivery channels by using IT, especially in synergy with mobile banking solutions
- Managing internal controls using MIS
- Managing risk using effective tracking of outsourced operations and credit risk from borrower
- Tracking social impact of their operation

The sector is not under regulatory supervision unlike the mainstream banking sector. But, as the sector gains momentum, self regulation within the industry will give way to reporting requirements, audits, internal governance and institutional level credit worthiness requirements from the regulatory body (such as NABARD). Recently, CIBIL has tied up with thirty-one major MFIs in India in order to enable informed credit decisions through information sharing within the sector. In order to

benefit from this new move, more and more MFIs have enabled themselves with robust IT systems.

“In the long term, growing and new generation MFIs will need to themselves equip their operations on flexible IT systems that adapt to changing environment, and build comprehensive MIS systems that help them track and assess their own growth,” informs Tripathi.

Tripathi further adds, “We do foresee a demand for IT software products,

Mobile payment technologies will play a major role as it is difficult to reach out to every person in the rural area. In such a scenario, IT can step in by offering cost effective services. The need of the hour is to create lower costs products, deploy the same efficiently and reduce capex of MFI companies.

The initial foray of private sector MFI companies led to cheap software solutions with limited functionality and scalability being quickly adopted by MFIs. This has led to obvious dissatisfaction in the mind of customers/users among MFIs, as these software solutions are not quickly changing to fast changing business needs.

Last Word

SKS Microfinance recently filed a preliminary prospectus with SEBI to raise about \$250 mn through a proposed initial public offering, seeking to become the first microfinance company in India to tap public markets for funds. If this is not enough Mehta informs that the disbursements in MFI industry have risen in the last four years around a CAGR of 80%.

To top it all, rural India, that has been shunned by regular banks, has reported a score of as low as 98% on loan repayment defaults. This has made Grameen Financial Services to carve out a special pilot project which will provide loans of more than Rs 30,000 to individuals with a good past credit history. These reflect how the sector could be a promising one-- a sector that has yet to see growth but generates high revenues for vendors or defines clear leaders or losers. It is very encouraging to see that IT is the prime agenda which every MFI is interested in discussing.

It is the sunrise sector that is leaving no stone unturned to ensure that light reaches the home of every needy Indian.

—Shilpa Shanbhag
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Client outreach, Savings and Portfolio over the years (SBLP + MFIs)

	2007	2008	2009	Growth in % 2009 over 2008
Client (Borrowers) No in lakh	505	649	817	26
Savings (SBLP alone) Rs crore	3513	3785	5545	47
Portfolio Rs crore	15856	22954	34413	50

Source: Sa-dhan Report

ITeS services, hardware, mobile payment equipments, ATMs, bandwidth, data centers and practically every IT product or service, to be consumed by the MFI industry in the next 1-5 years. A lot of IT budgets of 200 plus MFIs in India should now focus on cloud technology based product led services.”

“There are more than 300 MFIs functioning in the country and a decent amount of IT will ensure that they will take care of their functions and offer services at optimum costs. The potential is good for IT players who have understood the value of the game. There is a lot of gap left out there which offers a lot of opportunity for the IT industry to capitalize on,” says Neralla.

Meanwhile Suresh K says, “The IT vendors catering to this industry have to constantly focus on lowering costs.