Document of
The World Bank

Report No: ICR00003711

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-79230 IDA-47540)

ON A CREDIT

IN THE AMOUNT OF SDR 65.9 MILLION
(US$100 MILLION EQUIVALENT)

AND A LOAN

IN THE AMOUNT OF US$200 MILLION

TO THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA(SIDBI) WITH A GUARANTEE OF THE REPUBLIC OF INDIA

REPUBLIC OF INDIA

FOR A

SCALING UP SUSTAINABLE AND RESPONSIBLE MICROFINANCE PROJECT

March 23, 2016

Finance and Markets Global Practice
South Asia Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective 00000000)
Currency Unit = INR
INR 1.00 = US$ .015
US$1= 63

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CGAP	Consultative Group to Assist the Poorest
COCA	Code of Conduct Assessment
ICR	Implementation Completion and Results Report
IDA	International Development Association
IMEF	India Microfinance Equity Fund
IMFP	India Micro Finance Platform
IFC	International Finance Corporation
JLG	Joint Liability Group
KPI	Key Performance Indicator
M&E	Monitoring and Evaluation
MIS	Management Information Systems
MFI	Microfinance Institution
MFIN	Microfinance Institutions Network
NABARD	National Agricultural Bank for Rural Development
NBFC	Nonbank Financial Company
NGO	Nongovernmental Organization
OSS	Operational Self-sufficiency
PAC	Project Advisory Committee
PAD	Project Appraisal Document
PDO	Project Development Objective
PMJDY	Pradhan Mantri Jan-Dhan Yojana
PMMY	Pradhan Mantri Mudra Yojana
ROA	Return on Assets
RBI	Reserve Bank of India
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SRO	Self-regulatory Organization
UIDAI	Unique Identification Authority of India

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ICR Team Leader:	Varsha Marathe Dayal

INDIA

SCALING UP SUSTAINABLE AND RESPONSIBLE MICROFINANCE PROJECT

CONTENTS

PROJECT DATA SHEET

A. Basic Information			
Country:	India	Project Name:	India: Scaling Up Sustainable and Responsible Microfinance
Project ID:	P119043	L/C/TF Number(s):	IBRD-79230,IDA-47540
ICR Date:	03/23/2016	ICR Type:	Core ICR
Lending Instrument:	FIL	Borrower:	SMALL INDUSTRIES DEV BANK OF INDIA
Original Total Commitment:	USD 300.00M	Disbursed Amount:	USD 303.27M
Revised Amount:	USD 300.00M		
Environmental Category: F			
Implementing Agencies: SIDBI			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	07/09/2009	Effectiveness:		08/18/2010
Appraisal:	12/15/2009	Restructuring(s):		03/21/2012 06/25/2015
Approval:	06/01/2010	Mid-term Review:	12/31/2012	04/01/2013
		Closing:	06/30/2015	09/30/2015

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Satisfactory	Government:	Highly Satisfactory

Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Satisfactory	**Overall Borrower Performance:**	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating**
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Highly Satisfactory		

D. Sector and Theme Codes

	Original	**Actual**
Sector Code (as % of total Bank financing)		
Microfinance	100	100
Theme Code (as % of total Bank financing)		
Financial Consumer Protection and Financial Literacy	23	23
Micro, Small and Medium Enterprise support	15	15
Other Financial Sector Development	22	22
Other social protection and risk management	8	8
Rural non-farm income generation	32	32

E. Bank Staff

Positions	**At ICR**	**At Approval**
Vice President:	Annette Dixon	Isabel Guerrero
Country Director:	Onno Ruhl	Roberto Zagha
Practice Manager/Manager:	Niraj Verma	Ivan Rossignol
Project Team Leader:	Varsha Marathe Dayal	Niraj Verma
ICR Team Leader:	Varsha Marathe Dayal	
ICR Primary Author:	Ilka Funke	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)
The objective of the project is to scale up access to sustainable microfinance services to the financially excluded, particularly in under-served areas of India, through, among other things, introduction of innovative financial products and fostering transparency and responsible finance.

Revised Project Development Objectives (as approved by original approving authority)
Not applicable

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Disbursements of loans by beneficiary microfinance institutions (MFIs) to their clients relative to the amounts of financing borrowed from SIDBI			
Value quantitative or Qualitative)	1.25	4		23.84
Date achieved	03/31/2010	03/31/2015		03/31/2015
Comments (incl. % achievement)	Target surpassed. The beneficiary MFIs increased the number of branches by 1000 to 5967(+22 percent). On average, they are now active in 85 districts, compared to 54 before receiving funding.			
Indicator 2 :	Percentage of portfolio managed by beneficiary MFIs with operational self-sufficiency (OSS) of 100 percent			
Value quantitative or Qualitative)	0	35		91.87
Date achieved	03/31/2010	03/31/2015		03/31/2015
Comments (incl. % achievement)	Target surpassed. The beneficiary MFIs increased the number of branches by 1000 to 5967(+22%). On average, they are now active in 85 districts, compared to 54 prior to receiving funding.			
Indicator 3 :	Percentage of portfolio managed by beneficiary MFIs with OSS of 100%			
Value quantitative or Qualitative)	0	60		95
Date achieved	03/31/2010	03/31/2015		03/31/2015
Comments (incl. % achievement)	Target surpassed. 28 of the 30 beneficiary MFIs are now operationally self-sufficient. 13 MFIs substantially improved their self-sufficiency over time, while the others maintained their already solid financial performance.			
Indicator 4 :	Percentage of beneficiary MFIs disclosing operational/financial information on a web-based platform			
Value quantitative or Qualitative)	0	75		95

Date achieved	03/31/2010	03/31/2015		03/31/2015
Comments (incl. % achievement)	Target surpassed. 22 beneficiary MFIs are now reporting quarterly data to the platform. In addition, another 68 smaller MFIs are now also submitting quarterly data.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years

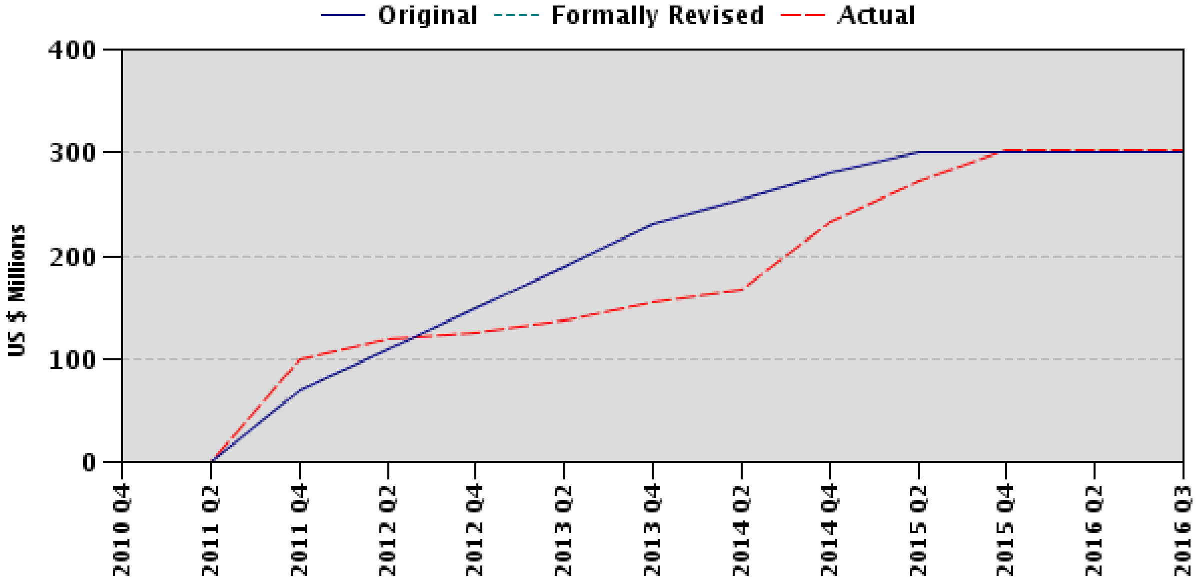
G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	01/10/2011	Satisfactory	Satisfactory	0.00
2	07/18/2011	Satisfactory	Satisfactory	98.62
3	02/14/2012	Satisfactory	Satisfactory	118.94
4	09/10/2012	Satisfactory	Satisfactory	126.26
5	06/20/2013	Moderately Satisfactory	Satisfactory	154.89
6	01/07/2014	Satisfactory	Moderately Satisfactory	166.91
7	06/06/2014	Satisfactory	Satisfactory	207.42
8	12/09/2014	Highly Satisfactory	Satisfactory	256.21
9	06/11/2015	Highly Satisfactory	Satisfactory	281.41

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
03/21/2012	N	S	S	118.94	Adding an activity to component II and reallocation of proceeds
06/25/2015		HS	S	302.74	Closing date Extension

I. Disbursement Profile



1. Project Context, Development Objectives, and Design

1.1 Context at Appraisal

1. **Country context.** The macroeconomic situation was still fragile at appraisal, but the economy had started to recover from the worldwide economic and financial crisis. Economy growth rebounded to 7.4 percent in 2009–10, mostly fueled by a strong industrial growth rate and the government's countercyclical spending.[1] However, inflation reached double-digit figures, with the increase in fuel prices leading to an increase in commodity, transport, and manufacturing prices and—together with a weak harvest due to some unfavorable weather conditions—elevated food prices. The increase in food prices was particularly felt by the low-income groups, which are the prime clients of microcredit.

2. **Authorities have taken advantage of recent low oil prices to improve macroeconomic stability.** India's growth performance has been helped by the drastic decline in crude oil prices since June 2014. It has allowed the government to reform fuel pricing and remain on the path of fiscal consolidation without drastic expenditure cuts. Lower oil prices also underpinned a decline in inflation despite two seasons of poor monsoons and aided by timely policy actions by the central government. Finally, low oil prices led to favorable terms of trade shock, leading to a 3.4 percentage point of the gross domestic product narrowing of the current account deficit between FY12–13 and FY14–15. The accompanying accumulation of reserves has helped make India less vulnerable to external volatility.

3. **Sector context.** India's financial sector had weathered the impact of the international economic and financial crisis well,[2] and particularly microfinance continued to grow strongly. According to data available at the time of appraisal, 54 million members of self-help groups (SHGs) benefitted from bank loans to their SHG, and an estimated 22.6 million people had loans from microfinance institutions (MFIs). The overall number of microfinance borrowers had increased substantially over the years, with particularly the loan portfolio of MFIs growing at rates of 50–100 percent annually (see table 1). Given their increased scale, a number of MFIs transformed into nonbank financial companies (NBFCs), thereby falling under basic regulatory provisions of the Reserve Bank of India (RBI).

Table 1. Outreach to Microfinance Borrowers (Outstanding Accounts, in Millions)

	2006/7	2007/8	2008/9	Growth (year on year) (%)
SHG member loans (via SHG bank linkage program)	38.02	47.1	54.0	15
MFI loans	10.04	14.1	22.6	60
Total (adjusted for overlap)	44.97	56.0	70.0	25

Source: State of the Sector Report, 2009.

4. Despite the strong growth in microfinance, substantial gaps in outreach remained and some operational weaknesses in the sector persisted. Around 30 percent of the poorest districts identified

[1] The central government deficit increased to 7.5 percent of gross domestic product due to countercyclical measures taken by the government.
[2] See, for example, IMF Staff Report for the 2009 Article IV Consultation, published in January 2010.

by the government were not yet covered by microfinance services and microfinance penetration in urban areas was low.[3] The microfinance association, Sa-Dhan, indicated that many low-income households still depended on expensive loans from moneylenders to bridge financial needs, and estimated unmet microfinance demand of low-income households to range around US$17.7 billion or 113 million households.[4] Geographic outreach of microfinance services was largely concentrated in a few states, with particularly Andhra Pradesh, Karnataka, and Tamil Nadu accounting for over 50 percent of all microfinance clients.[5] In those states, competition was heating up and some voices pointed to potential over-indebtedness of clients and ensuing risks to the sector's reputation and viability. The sector largely hinged on commercial funding and some entities had reached the capital adequacy ratios set by the RBI for larger NBFCs, which started to constrain their growth. Finally, issues in the areas of sound business conduct and operational and risk management were identified,[6] which had a negatively impact on the quality of the growth (see section 2.1).

5. **Rational for Bank assistance.** Given the remaining gaps in outreach, improving the population's access to financial services was a core focus for the government of India in its effort to eradicate poverty. By 2010, a number of government-supported initiatives were under implementation to foster the outreach of financial entities to unbanked segments of the population and to enhance the sector's efficiency in delivery. These included reforms of the short-term credit cooperatives system, linking SHGs with access to funding from banks, as well as introducing basic bank accounts (so-called no-frills accounts) and banking agents to make financial services affordable and accessible for the poor. The Small Industries Development Bank of India (SIDBI) and the National Agricultural Bank for Rural Development (NABARD) also provided technical and financial support to MFIs to help the sector reach scale. A draft microfinance law was in parliament to introduce a first regulatory framework for the entire microfinance sector (not just those covered under the NBFC Framework). The draft law would have covered SHGs and nongovernmental organization (NGO)-MFIs as well, which so far remained largely unregulated.

6. The World Bank supported the government of India in its drive to foster inclusive economic growth and foster financial inclusion. The Country Partnership Strategy (2009–2012) included under the inclusive growth pillar a number of projects to improve access to financial services, in particular, access to credit from formal institutions. The project was directly aligned with this. It aimed at addressing the financial needs of low-income households, thereby helping clients' smooth consumption, increase income-generating activities, and through this facilitate poverty reduction and private sector development over time. Furthermore, providing longer-term funding sought to strengthen the balance sheets of individual MFIs and aimed at fostering responsible and transparent market conduct. Both were deemed important for sound and sustainable growth of the sector.

7. Some donor initiatives were under implementation or planned during appraisal, which complemented the Bank project. The IFC provided technical assistance to the sector to foster the

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[3] According to the sector association Sa-Dhan, there were only 28,000 microfinance clients in Delhi, out of a total population of 14 million.
[4] An International Finance Corporation (IFC)-sponsored Intellecap study came to similar conclusions, estimating the unmet demand to be around 91 million clients.
[5] Orissa, West Bengal, and Maharashtra contributed another 30 percent.
[6] See, for example, Access's Microfinance India - State of the Sector Report 2009.

use of credit reporting platforms and enhance risk management in individual entities. The U.K. Department for International Development, under its Poorest States Inclusive Growth Program, provided funding and technical assistance to microfinance providers in four northern states of India. The Asian Development Bank and the *Kreditanstalt für Wiederaufbau* (German government-owned development bank) provided lines of credit for small and medium size enterprise development, and the *Kreditanstalt für Wiederaufbau* also supported the rollout of micro pensions to low-income households and technical capacity building for SIDBI. All of these were channeled through or coordinated by SIDBI and complemented each other. Some direct support for capacity building in MFIs was also provided through individual NGOs, such as, RBS Foundation in collaboration with Micro Save.

1.2 Original Project Development Objectives (PDO) and Key Indicators

8. The project aimed "to scale-up access to sustainable microfinance services to the financially excluded, particularly in underserved areas of India, through, among other things, introduction of innovative financial products and fostering transparency and responsible finance."

9. The Results Framework[7] identified four key performance indicators (KPIs) to measure the expected outcome:

(a) Extent of outreach. Disbursement of loans by beneficiary MFIs to their clients relative to the amounts of financing borrowed from SIDBI

(b) Breadth of outreach. Percentage of project funding for clients in underserved areas

(c) Operational sustainability. Percentage of portfolio managed by beneficiary MFIs with an operational self-sufficiency (OSS) of 100 percent

(d) Responsible finance. Percentage of beneficiary MFIs disclosing operational/ financial information on a web-based information platform.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

10. Neither the PDO nor the KPIs were revised during project implementation.

1.4 Main Beneficiaries

11. The PAD did not explicitly specify the main beneficiaries of the project. However, the PDO, project description, and the sections on intended impact[8] describe two target groups:

(a) MFIs were the primary target group. By providing funding in combination with measures to strengthen the sector's adherence to responsible finance standards, the project aimed to increase the financial soundness of beneficiary MFIs, diversify their

[7] See annex 3 of the Project Appraisal Document (PAD). The Results Framework also included a number of output indicators to track implementation of project activities.
[8] As, for example, described as part of the economic analysis in Chapter D.1 of the PAD.

geographic outreach, enhance transparency in their business conduct, and improve their operational management.

(b) As an indirect target group, the PDO refers to 'the financially excluded' population, particularly in underserved areas of India. According to the RBI definition, these are borrowers with an annual household income of maximum INR 100,000 (~US$1600) in rural and INR 160,000 (~US$2600) in urban areas. It was expected that the project will increase access to microcredits of these low-income households, thereby helping them invest in income-generating activities such as agriculture, handicrafts, and retail services, which would generate additional income and reduce their level of poverty over time.

1.5 Original Components

12. The project had three components, which complemented each other:

(a) **Component 1. Scaling Up Funding Support for Microfinance Institutions (estimated ~US$290 million, actual US$302 million).** Component 1 aimed to support the expansion of microfinance services to underserved areas of the country and to foster adherence to responsible finance practices in the sector. It provided financing to beneficiary MFIs in the form of loans and subordinated debt, as well as equity investment. Financing under Component 1 was to be linked with Component 2, for example, through fostering reporting of data and carrying out responsible finance reforms.

(b) **Component 2. Strengthening Responsible Finance (estimated US$5 million, actual US$0.28 million).** Component 2 aimed to promote transparency and responsible microfinance practices through a variety of innovative initiatives. This included support for (i) the development of a common information platform for India's MFIs to enhance availability of data on the sector; (ii) support and institutionalization of a lender's forum to promote transparency and good governance in India's MFIs; (iii) development and piloting of a Code of Conduct assessment (COCA) to foster adherence with the sector's Code of Conduct; and (iv) support for the rollout and uptake of the Unique Identification by microfinance borrowers.

(c) **Component 3. Building Capacity and Monitoring (estimated US$5 million, actual US$0.35 million).** This component aimed at strengthening SIDBI's institutional capacity to implement, coordinate, monitor, and evaluate the project. This was to include (i) operating and monitoring expenses; (ii) an impact assessment by an external research agency; and (iii) support for a communication strategy to share results and benefits of the project with the sector.

13. The project formally consisted of two different loans from the Bank: (a) an IBRD loan for US$200 million, and (b) an IDA credit of US$100 million. The IBRD loan provided the bulk of line of credit, including all of the equity/quasi-equity investments to the sector. The IDA credit covered the entire funding under Components 2 and 3 and supplemented Component 1.

1.6 Revised Components

14. The project components were not formally revised. However, some small changes were made during project implementation. These did not change the objective or content of the respective components and therefore did not trigger a restructuring.

15. As part of the March 2012 restructuring, Component 2 was extended to include need-based support for responsible finance activities of the two sector associations. The RBI introduced the concept of self-regulatory organizations (SROs) in December 2011, giving the sector associations a formal role in nurturing sound business conduct in the sector. The change reflected the increasing role that the two sector associations were to play through, for example, establishment of an industry ombudsman or development of a joint Code of Conduct. However, at project closing, no project funds were actually disbursed to the sector associations.

16. Under Component 1, the emphasis of the funding eventually changed toward the provision of debt funding. The project initially aimed at providing a larger amount of subordinated debt and equity to the sector, as capital adequacy considerations had emerged as a constraint to MFI growth in 2009. However, after the outbreak of the MFI crisis in Andhra Pradesh (see section 2.2.), debt funding to the sector dried up and became the prime bottleneck for MFIs. Furthermore, the government formally launched the India Microfinance Equity Fund (IMEF) in 2011, which was to provide equity and quasi-equity to smaller MFIs. The fund was eventually endowed with INR 3 billion (~US$50 million). The availability of this fund, together with the increasing riskiness of quasi-equity because of elevated non-performing loans in the sector after the crisis, led to a shift toward debt funding under Component 1.

1.7 Other Significant Changes

17. **Reallocation of funds.** During project implementation, the funding allocations changed and the closing date was extended. The changes came at the request of the Government of India and SIDBI, and had no impact on the PDO or the KPIs:

(a) In March 2012, US$2.75 million was reallocated from Components 2 and 3 to Component 1 as part of a level II restructuring. In May 2015, another US$5.90 million was transferred from the two components to Component 1 through overdraw approval of the task team leader. The funding categories were adjusted accordingly in the June 2015 restructuring (see para. 17b).

(b) The lower than expected disbursements under Components 2 and 3 did not reflect any changes in the actual scope of the components. They were due to an overestimation of actual costs of activities at appraisal, as well as actual cost savings realized during implementation. SIDBI was able to negotiate the costs for the 20- to 30-page long COCAs, resulting in an average cost of about US$2400. Furthermore, large cost savings were realized in the area of development of the information platform. This was in part because of contracting an already existing information platform, thus eliminating extensive costs for hardware and software. On the other hand, because of the delay in implementation, only the first tranche of the platform development could be funded under the project. The second tranche will be funded from SIDBI's own funds (see section 2.2)

(c) In June 2015, the project closing was extended by three months to September 2015 (level II restructuring approved by the country director) to allow full disbursement of the remaining IDA credit funds.

18. **Cofinancing.** Actual cofinancing by SIDBI was higher than expected. Compared to the agreed 10 percent cofinancing, SIDBI actually provided 11 percent cofinancing under Component I (~US$37 million), and covered 22 percent of the costs for the analytical and technical work carried out under Components 2 and 3 (~US$187,000).[9] Thus, direct cofinancing reached 11 percent, bringing total project costs to US$337 million. In addition to the direct cofinancing under the project, SIDBI also covered the costs for the project implementation unit and MFI appraisal.

19. Furthermore, the IMEF managed by SIDBI complemented the project through the provision of INR 3 billion (~US$50 million) for equity investment. SIDBI's total disbursements to the microfinance sector amounted to US$2.6 billion since 2010 (eightfold the Bank's line of credit). Both were subject to the same loan covenants and responsible finance assessments as promoted by the project and can therefore be considered indirect cofinancing.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design, and Quality at Entry

20. **Relevance and analytical underpinning.** The project was based upon a request for funding from SIDBI. It benefited from a prior needs assessments,[10] and was well aligned with both the government's and the Bank's priorities. It focused on reaching out to underserved areas of the country, including the seven focus states identified in the Bank Country Assistance Strategy.[11] The final beneficiaries, which included women as well as scheduled castes and scheduled tribes, were fully in line with the target beneficiaries of the government's programs to eradicate poverty. The design was informed by prior analytical work carried out by the Bank and IFC, sector studies conducted by national stakeholders, as well as extensive consultations with the sector.[12]

21. **Institutional arrangements.** The implementing agency SIDBI has a leadership role in the microfinance sector, and a solid track record as an apex organization. SIDBI was one of the early promoters of the microfinance sector in India, to which it provided capacity building and funding as early as 1999. In 2010, SIDBI already managed a second tier microfinance portfolio of around US$800 million. It had an elaborate system in place for appraising and monitoring sector

[9] Furthermore, given the delay in implementation of the information platform, SIDBI will finance Phase II of the information platform for the sector out of own funds.

[10] This included feedback received from sector stakeholders during the appraisal mission, as well as calculations made by stakeholders like the sector network Sa-Dhan or the IFC/Intellicap study in 2008

[11] These were Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh, which together are home to more than half of India's population living below the poverty line.

[12] For example, SIDBI's (2008) national study of Indian microfinance households "Assessing Development Impact of Microfinance Programs", IFC's (2008), "Inverting the Pyramid", the Bharat Microfinance Report of Sa-Dhan (2009), the State of the Sector Reports issued by Access Development Services on an annual basis, as well as the World Bank's (2004/6), "Scaling Up Access to Finance for India's Rural Poor".

investments and was one of the core promoters of sound growth in the sector. Its role as an apex institution was, for example, showcased by Consultative Group to Assist the Poorest (CGAP) (2012), which praised SIDBI's sound operational procedures, its efforts to prevent crowding out of private funds by setting clear funding ceilings and charging market-based interest rates, and its leadership role in strengthening the financial infrastructure of the microfinance sector. Given its role and solid reputation, SIDBI was uniquely placed to incentivize responsible finance in the sector in combination with providing funding.

22. **Project design.** The project design was straightforward and used—where possible—already well-established operational procedures. SIDBI was the sole implementation agency and had both the political mandate and institutional capacity to carry out the various aspects of the project. A detailed Operations Manual was developed and agreed upon before negotiations and it included clear procedures for appraisal, selection, and monitoring of MFIs. It also provided for market-based interest rates for on-lending to MFIs, which is considered good practice for a line-of-credit operation. An OP 8.30 review was carried out before appraisal and confirmed that the project design and Operations Manual were compliant with the World Bank's guidelines for Financial Intermediary Lending. The project also included a number of innovative mechanisms, such as the equity and subordinated debt funding, the COCAs, and the lender's forum. However, as mentioned under 1.4, the main beneficiaries were not formally identified in the PAD, and the Monitoring Framework had some weaknesses (see section 2.3). Furthermore, the funding needs under Components 2 and 3 were largely overestimated (see section 1.7), as the supported reforms were innovative and actual costs could only be guessed.

23. **Quality of eligibility criteria.** The eligibility criteria for beneficiary MFIs were in line with the requirements of the Bank's Operational Policy on Financial Intermediary Lending (OP 8.30), which called for involving viable financial intermediaries or entities with a clear action plan toward sustainability. Yet, the formulation of the eligibility criteria on outreach and responsible finance were vague and the threshold of portfolio at risk over 90 days of below 10 percent was generous for microfinance.[13] While this allowed working with a broad range of institutions, it however required strong ongoing commitment and discipline from the implementing agency to only work with viable institutions, include the needed responsible finance reforms in loan covenants, and foster outreach in underserved areas.

24. The list of underserved areas of India was kept broad. The list only excluded four of the southern states, in which clear signs of overheating had emerged. Otherwise, all other Indian states qualified as 'underserved', without making a distinction between states that had already considerable coverage of MFIs, such as West Bengal. While in-depth data on this was not available at project appraisal, considerations could nevertheless have been given to include a criterion for eligible sub-borrowers to come from districts with one or no MFIs in operation. This would have given a stronger incentive to reach out to new and unbanked areas.

25. **Risk assessment.** The Bank team correctly identified the core weaknesses and risks in the sector, but—in hindsight—underestimated their potential impact on the sector and on project

[13] The eligibility criteria in the Operations Manual only stated that the MFI should have an "orientation toward underserved areas or clients", and a business plan for growth of its microfinance operations. It also included a list of potential performance criteria to be included in the area of responsible finance.

implementation**.** The PAD identified core issues such as the lack of adequate internal control systems in MFIs, gaps in information transparency, concentration of outreach, and weaknesses in adherence to responsible finance principles. It also correctly identified the main risks that led to the microfinance crisis in Andhra Pradesh, namely the risk of deteriorating quality of loan appraisals because of the strong growth of the sector and political interference. The project team, however, concluded that the project design was sufficient to mitigate these risks and rated the overall risk as Moderate. In hindsight, this was not the case and the impact on the sector was deeper than anticipated (see section 2.2).

2.2 Implementation

Factors Outside the Project's Sphere of Influence

26. **Sector wide factors.** The outbreak of the microfinance crisis in Andhra Pradesh at the end of 2010 had a strong impact on the viability of the sector. A poor harvest and problems with over-indebtedness led a number of rural clients committing suicide. This, together with some concerns over abusive lending and collection practices and the elevated profitability of some entities, led to a strong political reaction in Andhra Pradesh and almost brought the sector to the brink of collapse (see box 1).[14]

Box 1. Impact of the Microfinance Crisis in Andhra Pradesh on the Viability of the Sector

In October 2010, the government of Andhra Pradesh introduced regulations that led to a de facto lending moratorium. Recovery rates in Andhra Pradesh dropped from 99 percent to around 10 percent in 2011. An estimated loan portfolio of INR 60 billion (~US$1 billion), from 5 million MFI borrowers, turned delinquent overnight. As over 30 percent of all microloans had been concentrated in Andhra Pradesh, this strongly affected the loan portfolio quality and liquidity situation of the entire sector.

Given the ensuing viability risk in the MFI sector, funders withdrew already approved credit lines, and scaled back the rollover of expiring loans. Lending to MFIs dropped by 30 percent in the aftermath of the crisis, with some entities facing even larger funding gaps.

Many small and midsize MFIs ceased operation due to the low recovery rates and the lack of funding. The number of MFIs reporting to the sector association Sa-Dhan dropped, for example, from 264 in 2010 to 170 in 2011, largely due to closures of entities. The outstanding debt of MFIs to banks was eventually subject to restructuring in 2012, but the actual recovery of the nonperforming loans of clients in Andhra Pradesh continues to be limited to date.

Source: Own compilation.

27. **Regulatory changes.** The RBI introduced a number of regulations to address shortcomings that had led to the crisis. In April 2011, the RBI introduced guidelines on priority sector lending to MFIs, which determined debt ceilings for microfinance clients and established pricing ceilings for MFIs if the assets were to qualify for priority sector lending. The burden of proof was on lenders, who had to confirm the MFI's compliance through quarterly certifications from a chartered accountant. The priority sector regulation covers all types of MFIs.

28. In addition, in December 2011, a more stringent set of regulations was introduced for the newly created category of NBFC-MFIs. This put the NBFC-MFIs under market conduct and consumer protection regulations and introduced some prudential norms (see box 2). To monitor

[14] For a detailed description of the crisis, see Microfinance India - State of the Sector Report 2011.

compliance, the RBI mandated smaller NBFC-MFIs to get an annual certification of compliance from a chartered accountant, while large NBFC-MFIs were also subject to direct supervision of the RBI. Finally, in 2012, the RBI updated the Fair Practice Guidelines for NBFCs. These regulations eventually became the framework for responsible finance in the sector, although they formally only applied to NBFC-MFIs.

Box 2. Changes Made to the Regulatory Framework due to the Andhra Pradesh Crisis

Amendment to priority sector regulation (April 2011):

To qualify as priority sector lending, the MFI has to be compliant in three core areas:

(a) 85 percent of total assets of the MFI are to be in the nature of 'qualifying assets'. The latter refers to loans to households with an annual income of less than INR 60,000 or 120,000 in rural or urban areas, respectively, and whose total indebtedness is below INR 50,000. No collateral is to be taken and the maturity of loans is to be at least 24 months for loans over INR 15,000.

(b) The aggregate amount of loan, extended for an income-generation activity, is not less than 75 percent of the total loans given by the MFIs.

(c) Pricing guidelines are followed. This includes (i) a cap on the margin of initially 12 percent; (ii) interest to be calculated on a declining balance; (iii) loan file to include information on the processing fee, interest, and insurance premium charged; and (iv) a cap on processing fees of 1 percent of gross loan amount and no security deposit.

Regulation to introduce new category of NBFC-MFI (December 2011):

(a) Defines the NBFC-MFI as a non-deposit taking institution whose activities are in line with the rules as stated in the priority sector regulation for MFIs (see above).

(b) Sets as prudential norms (i) a minimum capital of INR 50 million, (ii) adherence to a capital adequacy ratio of 15 percent, and (iii) compliance with provisioning guidelines.

(c) Mandates that NBFC-MFI should provide the borrower with a loan card reflecting (i) the effective rate of interest, (i) all terms and conditions of the loan, (iii) information to adequately identify the borrower, and (iv) repayments received over time. All entries should be made in a vernacular language.

(d) Requires that the effective rate of interest charged by the NBFC-MFI should be prominently displayed in all its offices, the issued documentation, and on its website.

(e) In addition to the limits established by the definition of qualifying assets, mandates that not more than two NBFC-MFIs should lend to the same borrower, and that a borrower cannot be a member of more than one SHG/Joint Liability Groups (JLG).

(f) Regulates that recovery of loans should only be carried out at the designated places or at the home or work place, if the borrower fails to appear at two successive meetings.

(g) Requires that NBFC-MFIs have a Code of Conduct in place (compliant with the Fair Practice Code) and systems for recruitment, training, and supervision of field staff.

Source: Own compilation based on the RBI regulations.

29. The RBI regulation also introduced the concept of SROs in December 2011. The sector associations were to introduce voluntary Codes of Conducts and foster additional responsible finance and consumer protection standards in member MFIs. The concept allowed bringing other MFIs, which are not covered under the regulatory framework for NBFC-MFIs, under an enhanced responsible finance framework. Both sector associations, the Microfinance Institutions Network

(MFIN) and Sa-Dhan, are now authorized to operate as SROs. They recently updated the sector-wide Code of Conduct launched in 2011.

Impact of the External Factors on Project Implementation

30. The microfinance crisis and the ensuing Regulatory Framework affected the implementation of the project in a number of ways, but the strong impact on the sector did not put the achievement of the project's objective at risk:

(a) The project initially had a strong focus on incentivizing the voluntary uptake of responsible finance norms and the Codes of Conduct. With the emergence of the regulatory framework, focus could now be given to supporting and monitoring the actual implementation of the framework, which had made certain responsible finance practices mandatory. This likely had a strong and positive impact on achievements in the area of responsible finance.

(b) On the other hand, a number of project activities were delayed. MFIs were reluctant to share information on their overall performance and outreach or to have their clients surveyed. As a result, the rollout of the baseline survey for the impact assessment, as well as the implementation of the information platform was delayed to 2012–13.

(c) Furthermore, SIDBI had a strong exposure to the sector and, given the increased riskiness of its exposure, temporarily curtailed its new lending.[15] As a result, disbursements under Component 1 slowed down considerably in 2011 and 2012.

(d) Finally, project funds earmarked for equity investments were used for regular on-lending, as the equity fund, IMEF, had become available and capital adequacy ratios were no longer a core bottleneck (see also section 1.6).

31. None of the changes made achievement of the project objective or the KPIs impossible; so they did not trigger a restructuring or put project implementation at risk over time.

Risk Mitigation Efforts during Implementation

32. The national government and SIDBI remained committed to the microfinance sector and to enhancing responsible finance. In early 2011, the national government announced the launch of the IMEF to help the sector maintain growth and reach scale. The initial size of the fund was eventually increased from INR 1 billion (~US$16 million) to INR 3 billion (~US$50 million) in 2013. Together with the RBI's confirmation that lending to MFIs will continue to qualify as priority sector lending, this gave an important signal to commercial funders that the sector was considered important and will continue to play a role in the government's effort to foster financial inclusion. SIDBI also continued to play an active role in promoting sound business practices in the

[15] According to the Microfinance India - State of the Sector Report 2011, p. 4, SIDBI curtailed its funding to the sector to one-third of pre-crisis levels, with only 12 percent of the new lending in 2010/2011 coming from SIDBI. Overall, the outstanding portfolio of SIDBI continued, however, to account for 24 percent of total loans to the sector, showing the vast exposure that SIDBI had.

sector and in coordinating various stakeholders to seek a common approach to resolving the crisis (see chapter 3 for a more in-depth discussion).[16]

33. The Bank team closely monitored implementation of project activities and took an active role in promoting more far-reaching reforms. The project implementation documents included candid and in-depth assessments of the situation in the sector, and, on numerous occasions, discussed forward-looking suggestions to mitigate risks, further initiate reforms, and enhance impact. This included, for example, suggestions to launch a communication campaign on the sector in the aftermath of the crisis, the hiring of consultants for the lender's forum to support actual implementation of agreements, or the linking of the Unique Identification Authority with MFIs in pilot areas to foster uptake of the Aadhaar number. The team also participated in selected meetings of the lender's forum and was actively pushing for setting of incentives under Component 1.

2.3 Monitoring and Evaluation (M&E) Design, Implementation, and Utilization

34. **M&E design.** The design of the M&E framework had a number of weaknesses. Two of the four KPIs tracked outputs and not outcomes and issues with one other indicator and its target rate were noted.

35. **KPI 1.** To track the extent of outreach, the first indicator compared the disbursements made under the line of credit in a given year with the loan portfolio of the respective entities in that year. While this is a good proxy to measure the leverage of project funds in a given year,[17] the indicator cannot, however, be compared over time (as suggested by the trend in the target indicator), because the composition of the indicator varies each year. It can therefore not provide information on the overall progress made toward scaling up over time. To measure the extent of outreach, the evaluation uses growth rates of the loan portfolios of the beneficiary MFIs over time and benchmarks these with the performance of the sector. Furthermore, annual data on the number of lenders and funds borrowed from visited MFIs is used to determine the leverage over time for individual institutions.

36. **KPI 2.** The formulation of the second key performance indicator deviated between the main sections of the PAD and the Results Framework in annex 3, suggesting two different concepts to be measured. The indicator suggested in the main text (growth in underserved areas) would have been adequate to measure progress toward the objective over time and in line with the suggested evolution of the target indicator. However, the actually tracked indicator (as provided in the Results Framework in the PAD) measured the percentage of project funds that refinanced loans to clients in underserved areas. This is an output indicator, which merely reflects the selection criteria used for the submitted subportfolio and does not measure actual evolution of outreach of the MFI. To measure the breadth of outreach, the evaluation used data on the number of branches, districts, and states covered, as well as evolution of number of clients of beneficiary MFIs and compares the information with the overall evolution of the sector.

[16] This role was, for example, highlighted in the Microfinance India - State of the Sector Report 2011, p. 8.

[17] The microfinance market in India is already a mature market, with most MFIs having access to external funds to finance their loan portfolio. Given this, the development of the loan portfolio can serve as a proxy for the additional funding received.

37. **KPI 3**. The indicator on OSS of the beneficiary institutions follows best practice for a line-of-credit operation.[18] Given that most of the funding available to MFIs in India is provided on commercial terms, the OSS is also a close proxy for financial self-sufficiency and is adequate to measure the sustainability of the achieved scale-up. The target indicator was realistic, given that the microfinance sector in India was already largely operationally self-sufficient at the time of appraisal. To calculate the OSS, SIDBI used the ratio of income from operations to total expenditures, which differs from the one used by MIX Market,[19] but is still adequate. To measure self-sufficiency, the Implementation Completion and Results Report (ICR) also looked at the evolution of the OSS in beneficiary MFIs as reported on MIX Market, which also controls for impaired assets.

38. **KPI 4**. The indicator to measure progress in the area of responsible finance was neither the most relevant indicator nor did it measure outcomes. It provided information on the share of beneficiary MFIs, which disclosed their financial and operational data to an information platform. The latter was an expected output under the project and reporting was to be made mandatory as part of the loan covenant. Therefore, this indicator measured the actual implementation of an expected output, but not the impact generated.[20] To measure progress toward responsible finance, the number of beneficiary MFIs with a full-fledged grievance mechanism in place, transparency in loan documentation, or number of participating entities disclosing the effective interest rate on a total cost basis could have been selected. These areas are generally considered as international best practice for responsible finance, so progress toward this could have been used as outcome indicators. To assess progress toward responsible finance, the evaluation gathered evidence from visited MFIs on adherence to international best practice, and on reforms implemented in reflection of weaknesses identified in the COCAs.

39. The noted deficiencies in the KPIs were partly mitigated by the output indicators. They included ‘number of active clients’ and ‘outreach to women’, both of which provide information on the overall outreach. They also included indicators to measure the financial soundness of beneficiary MFIs over time, through tracking the capital adequacy ratio and portfolio at risk over time. However, no indicator was included to track the follow-up on loan covenants in the area of responsible finance. This made getting an overview over actual outputs in the area of responsible finance and achievements more difficult.

40. In addition to the results framework agreed in Annex 3 of the PAD, the operations manual also detailed monitoring procedures and frequency of SIDBI interaction with beneficiary MFIs. This provided for an in-depth supervision of beneficiary MFIs by SIDBI, and close monitoring of progress. While this did not remedy the deficiencies in available consolidated quantitative data as discussed above, it however provided for an overall adequate monitoring system of individual entities.

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[18] See for example the OP 8.30 on Financial Intermediary Lending, which highlights that the focus of on-lending should be on viable financial institutions or those with a clear path to sustainability. The need to focus on viable institutions with sound lending practices was also highlighted in IEG’s evaluation of Lines of Credit in 2006.

[19] For measuring OSS, MIX Market uses financial revenue / (financial and operational expenses + impairment loss)

[20] An outcome would, for example, have been the number of stakeholders using the database, or the number of ‘hits’ per year.

41. **Actual implementation of the M&E framework.** SIDBI prepared a PowerPoint presentation with information on the KPIs and on the general evolution of the sector for each Bank implementation support mission. It also updated this information in the semiannual reports. The KPIs and available information was discussed during the Bank implementation support missions. However, the output indicators were not tracked regularly, which contributed to a general lack of project-level data at the end of the project.

42. In addition to reporting on the key performance indicators, SIDBI regularly supervised the performance of the beneficiary MFIs. This involved half-yearly supervision missions by the branch or regional officer of SIDBI (including field visits), and off-site monitoring of financial performance indicators. Furthermore, a Project Advisory Committee (PAC), which comprises staff of SIDBI and the MFIs, met on a half-yearly basis to discuss topics such as business plans, competition issues, financial and operational performance, governance, RBI compliance, and responsible finance. The PAC also supervised implementation of the covenants included in the loan document, but actual enforcement of noticed gaps was reportedly uneven. This monitoring system is used for all of SIDBI's MFI investments, and not only for the Bank line of credit or other donor funds. It allows SIDBI to have an in-depth understanding of the performance of the beneficiary MFI and to adequately monitor its progress.

43. In addition to SIDBI reports, a number of other monitoring tools were in place. The underlying loan portfolios of the MFIs as well as the MFIs' compliance with RBI guidelines were subject to certification by chartered accountants. The financial management specialist of the Bank also regularly visited the field to carry out spot-checks (also see section 2.4). Furthermore, the Bank's technical experts went on two field visits in each of the project missions, which allowed direct exchange with stakeholders and project beneficiaries, and provided necessary feedback to sustain the policy dialogue with the counterparts and make forward-looking suggestions for project implementation. The discussions and results of the missions were candidly reported in the project implementation documents and followed up in subsequent missions.

44. This close monitoring made up for the mentioned deficiencies in the data-related monitoring framework and helped maintain the focus on the responsible finance agenda.

2.4 Safeguard and Fiduciary Compliance

45. **Social safeguards.** No social safeguards were required, as the loan amounts to clients were small, and no sector specific investments were foreseen. Nevertheless, to shield against potential discrimination of beneficiaries, MFIs were asked to report on their coverage of scheduled casts, scheduled tribes, and women. The project triggered environmental safeguards, and the Operations Manual included a list of excluded activities. Verification of adherence was included as part of SIDBI's credit appraisal and portfolio review process and followed by the MFI itself as part of their loan appraisal process. Furthermore, chartered accountants were to certify a randomized subsample of loans, regarding compliance. During implementation, some small deficiencies in actual loan utilization and the certification process were noted. While these remained a few cases, a minimum content for certification by chartered auditors was introduced, to make compliance checks more uniform and to propose the use of standard accountants instead of chartered accountants.

46. **Fiduciary compliance.** SIDBI has adequate operational systems in place to carry out financial management functions of the project. This includes a computerized accounting system, which captures sources and uses of funds, and generates data for the interim financial reports. These financial reports were of good quality and were submitted regularly to the Bank for timely reimbursement of disbursements under Component 1 and to allow financial monitoring. The internal controls for financing of MFIs were codified in the Operation Manual and meticulously implemented by SIDBI. The documents pertaining to disbursements, that is, appraisal notes, sanction letters, end use certificates, and visit reports, were retained at the respective locations/branches of SIDBI and were available to auditors and Bank staff for review. With regard to end use monitoring, some issues were noted with the documentation available with SIDBI and a stronger focus on verifying the adequacy of management information systems (MIS) of MFIs recommended by the Bank's team. A microfinance checklist was also developed under the project to verify SIDBI's compliance with loan appraisal processes. The checklist was used by the auditors for the review of SIDBI and was annexed to the audit reports.

47. The Bank required SIDBI to submit two set of audit reports: (a) the entity audit report reflecting SIDBI's financial statements, and (b) the project-specific audit reports for seeking fiduciary assurance on Bank funds. Both reports were prepared by SIDBI in a timely and regular manner. However, the submission of the project-specific audit reports was frequently delayed, which was mostly attributable to delays on the part of statutory auditors. This was outside of the sphere of influence of SIDBI. For future project operations with SIDBI, the Bank is exploring whether it can obtain its requisite fiduciary assurance from the general audit reports of SIDBI, which are timely and acceptable, rather than to go for a separate project audit report.

48. Procurement activity under the project was limited (less than 1 percent of the loan amount was subject to procurement), with no issues noted.

2.5 Post-completion Operation/Next Phase

49. As will be discussed in chapter 4, most of the initiatives supported under the Bank project continue after project closing because of available funding from the public and private sector. SIDBI continues to provide the revolving funds to the sector, and is currently assessing options to further increase its funding envelope, including through a follow-up project with the Bank. The latter will likely focus on supporting the newly created small finance banks, and—in line with the Universal Financial Access goals—include technical assistance to help the former MFIs offer a broader range of financial services (including payment and savings) and strengthen their credit appraisal techniques for individual loans.

50. Most recently, SIDBI has also been put in charge of managing the new government initiative PMMY, which aims to foster access to funding for microenterprises. As part of its mandate, MUDRA will lay down policy guidelines for microenterprise lending, develop responsible finance guidelines to prevent over-indebtedness of micro entrepreneurs, and develop a set of loan covenants for lending to the beneficiaries. The roles are similar to SIDBI's roles and responsibilities in the area of micro credit under the Bank project. MUDRA has been created in August 2015, with a suggested endowment of INR 200 billion (~US$3 billion) for refinancing, and INR 30 billion (US$470 million) for credit guarantees for microenterprise loans. The technical

assistance and funding needs of MUDRA are currently being assessed, and could be potentially included in a follow-on project.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design, and Implementation

Rating: Satisfactory

51. **The government of India continues to have a strong focus on fostering financial inclusion.** Despite considerable progress made over the last few years, the government still estimates that around 60 of the 130 million rural households lack access to bank accounts and payment services, and that 90 percent of micro entrepreneurs do not have access to formal funding.[21] With a view to overcome these remaining barriers, the government launched the 'Pradhan Mantri Jan-Dhan Yojana' (PMJDY)[22] Program in 2014, and in 2015 the Pradhan Mantri Mudra Yojana (PMMY) Scheme.[23] In particular, the PMMY scheme, which is implemented by SIDBI, complements the project's efforts to scale-up credit by helping micro entrepreneurs scale-up investments. With its strong focus on providing the underserved population with access to credit, the project's objective remained aligned with government priorities over time and as discussed under section 2.5 continue to be part of the government's financial inclusion agenda.

52. **The project also continues to be relevant under the Bank's Country Partnership Strategy with India.** The overarching objective of the World Bank Group's engagement in India for 2013–17 continues to be poverty reduction and boosting shared prosperity. Improving access to financial services is mentioned as a one of the factors to help with economic integration of the poor and vulnerable segments of the population. Increasing access to financial services is therefore listed as one of the expected outcomes under the 'inclusion' pillar of the Country Partnership Strategy. Overall, four projects (including this project) provide support to various sub segments of the financial sector.

3.2 Achievement of Project Development Objectives Efficacy

Rating: Satisfactory

53. **Evaluation approach.** To assess the project's impact, the PDO is broken down into four sections: (a) scaling up of sustainable microfinance services by beneficiary MFIs; (b) outreach to financially excluded segments of the population, particularly in underserved areas; (c) usage of innovative financial products (patient funds); and (d) progress toward responsible finance.

54. The evaluation of results is based on a review of project documents, audits, impact assessments from SIDBI and the sector, as well as background information received during missions[24] and from sector reports. To benchmark the performance of the beneficiary MFIs, the

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[21] Data is based on information from the PMJDY and PMMY brochures. The World Bank's Global Findex Database (2014) confirms that roughly 50 percent of the surveyed population had borrowed money in the past year, but mostly from friends and family or from more informal financial service providers (including MFIs).

[22] PMJDY report (2014), p. 5, for a more detailed description of the program see http://www.pmjdy.gov.in/home.

[23] For a more detailed description, see http://www.mudra.org.in.

[24] The mission met with representatives from SIDBI, five MFIs, two lenders, two sector associations, two think tanks, and one donor. The evaluation team also conducted four field visits and conducted interviews with borrowers in eight center meetings.

evaluation uses data on outreach and the loan portfolio from MFIN's MicroScape publication (2014/15). The latter includes annual data for 31 of its 49 member institutions for the years 2010/11 to 2014/15.[25] Of those 31 institutions, 18 MFIs received funding under the Bank's line of credit. The 18 MFIs together account for over 90 percent of the loans and 100 percent of the equity provided under Component 1. So the sample is highly representative of the 23 MFIs that received funding under the project. With regard to the MFIN dataset, the 18 MFIs accounted for 55 percent of the gross loan portfolio and 51 percent of the clients in 2010. This is adequate to compare the evolution of the two aggregates over time. Finally, the financial performance of individual beneficiary MFIs is based on data from MIX Market.

(a) Scaling up of sustainable microfinance services
Rating: Highly Satisfactory

55. **Generated leverage.** The project provided loans, subordinated debt, and equity in the range of US$299 million to 23 MFIs. Given SIDBI's solid reputation as a lender and effective promoter of the microfinance sector, receiving a loan from SIDBI had a strong signaling effect on other private and public lenders and helped leverage funds from them. This effect is particularly visible after the crisis, where SIDBI funding helped, in numerous cases, bring back investors (see box 3). In each year, the disbursed project funds were leveraged around 30 times by other lenders, and the target performance indicator of four times was surpassed.

56. **Growth of loan portfolio.** The boost in funding helped beneficiary MFIs get on a higher growth trajectory. The 18 beneficiary MFIs increased their loan portfolio by 207 percent since 2010, which is considerably higher than the 128 percent growth achieved by the full MFIN sample (see table 2). The actual impact on the loan portfolio was however even higher, as a number of beneficiary MFIs witnessed a portfolio decline between 2010 and 2012. If the current loan portfolio was compared with the portfolio of MFIs at the time of receiving the project funds, actual growth was 260 percent.

57. **Financial soundness.** The beneficiary MFIs were able to improve their financial performance over time. Most of the beneficiary MFIs were already operationally self-sufficient at the time of receiving the line of credit, reflecting the mature microfinance market in India. Nevertheless, based on MIX Market data, 13 entities showed a substantial improvement in their self-sufficiency over time and most of the others were able to maintain their already solid financial performance. Overall, all but two of the 30 beneficiary MFIs are operationally self-sufficient at project closing and the target performance indicator of 60 percent was surpassed.

Box 3. Examples of Impact Generated through SIDBI Loans

One of the visited MFIs had seen a drop in number of lenders (-1) and available loans (-10 percent) due

[25] See MicroScape and MicroMeter data published on the MFIN webpage. MFIN data was chosen, as it is still difficult to get a consistent set of data on the Indian Microfinance sector. The data from the Microfinance India - State of the Sector Report, for example, is not consistent over the years, as the number of entities reporting fluctuates between years. Furthermore, the latest report has changed its format and focus, with less data on the MFI sector available. Similar issues are noted with the reports from Sa-Dhan, the largest sector association which includes both NBFC-MFIs and NGO-MFIs. The only consistent set of data is therefore from MFIN, which has data that are anyhow a good fit for comparison with the project, as both MFIN and the project loans focus on NBFC-MFIs.

to the crisis. When SIDBI provided it with a loan in 2011, the situation turned around. Its annual funding envelope increased nine fold, with 23 lenders providing funds compared to 7 in 2011. The share of SIDBI funding dropped from 12 percent in 2011 to 4 percent (cumulative) and the MFI was able to leverage US$139 million from other lenders over time.

The increased funding helped the MFI scale up its operations. It now caters to 334,000 clients (+430 percent since 2011), and is represented in 70 districts and 7 states of India (compared to 26 districts in 6 states in 2011). In part, because of the increased scale, the MFI was able to contain overall operational costs, and bring costs per borrower down to one-third. It is now operationally self-sufficient (reaching 120 percent compared to 69 percent in 2010).

Another visited MFI was able to leverage US$28.6 million from private and public funders since receiving support under the line of credit in 2012. Its annual funding envelope from lenders increased more than tenfold, with 16 contributing lenders compared to 4 in 2012.

The MFI added 59 new branches and is now represented in 4 states and 42 districts (compared to 3 states and 22 districts in 2011). It currently has 83,000 clients (compared to 30,000 in 2011). The MFI was able to reduce operational expenses, despite a lower borrower per loan officer ratio. It continues to report a solid operational self-sufficiency of 110 percent.

The third visited MFI also experienced a substantial drop in funding after the crisis (-80 percent in 2011). The support received by SIDBI since 2011 helped sustain operations, with SIDBI loans accounting for a peak of 23 percent of outstanding debt in January 2013. Since then, the MFI was able to attract new lenders and its outstanding debt increased nineteen times (4 times pre-crisis levels). This brought the share of SIDBI loans down to 3.2 percent (as of September 2015).

The MFI now caters to 321,000 clients (+197 percent since 2011) and reaches out to 4 states and 37 districts (compared to 2 states and 10 districts in 2010). The MFI has contained its nonperforming loans (down from 3.6 percent in 2010 to 0.4 percent in 2014), and improved its overall operational costs. This helped bring back OSS to 120 percent.

Overall, data from MIX Market confirms that five supported entities were able get back on a growth trajectory after receiving SIDBI funding and another seven saw a substantial boost in growth. Only two entities showed a decline in assets over time.

Source: Own compilation based on MFIN and MIX Market data, as well as information and data received during the field visit.

58. **Other impact.** Given their solid performance and scale, eight beneficiary MFIs were authorized by the RBI to transform into banks. The largest MFI was approved by the RBI for a full banking license and started banking operations in August 2015. It is one of the 14 financial entities worldwide that committed to a numeric target under the Universal Financial Access goals launched by the Bank and its partners in 2015.[26] Furthermore, seven beneficiary MFIs received RBI approval to transform into a small finance bank. As only 10 entities received this approval, this is a remarkable achievement and confirms the overall solid operational systems and financial performance of the supported entities.[27] The new license will allow them to take small savings and provide small business units and farmers with larger loan amounts. This will achieve universal financial access in India, which is one of the focus countries of the Bank initiative.

[26] See http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020

[27] Overall, 72 entities applied for the newly created license of a small finance bank. Of these, 9 had received funding under the project.

(b) Outreach to the financially excluded, particularly in underserved areas
Rating: Highly Satisfactory

59. **Geographic outreach.** The additional funding helped beneficiary MFIs to reach out to new districts and states, while at the same time restructuring their existing branch network in response to the crisis. Since receiving project funding, the sample beneficiary MFIs increased the number of branches by 1000 to 5967 (+22 percent). This is a marked contrast to the evolution of the full MFIN sample, where the growth over time was only sufficient to compensate for the closing of branches after the crisis (see table 2). The increase in branch outreach helped diversify the loan portfolio of the beneficiary MFIs and increased coverage in underserved states. On average, the beneficiary MFIs now are present in 85 districts (compared to 54 before receiving the funding), with the larger MFIs operating in over 20 states and the smaller in 3–7 states. According to MFIN, the southern states now account for 30 percent of the clients (down from 51 percent in 2010), while the other three regions each have 20 to 28 percent of the remaining loan portfolio. However, the smaller MFIs usually still have over 50 percent of their loan portfolio concentrated in one state; so are still exposed to some geographic and political risk.

Table 2. Evolution of Outreach in the Microfinance Sector

	2010/11	Year before Receiving Bank Funding	2014/15	Growth (%)
Branches				
Total MFIN	9,843		9,894	0.5
18 sample beneficiary MFIs	5,580		5,964	6.9
		4,886	5,964	22.1
Gross loan portfolio (in INR, crore)				
Total MFIN	16,681		3,7988	127.7
18 sample beneficiary MFIs	9,126		28,036	207.2
		7,809	28,036	259.0
Clients (in thousands)				
Total MFIN	23,700		28,600	20.7
18 sample beneficiary MFIs	12,163		19,822	63.0
		9,645	19,822	105.5

Source: MicroScape (2014–15), MFIN.

60. **Outreach to microfinance clients.** Over 20 million clients of MFIs directly or indirectly benefited from the project. The line of credit itself directly funded loans to 1.64 million microfinance borrowers, with the loans being targeted to micro borrowers from the manufacturing or services sectors. Around 89 percent of the funds went to borrowers in states that were considered underfunded at appraisal (largely surpassing the target of 35 percent). Given the considerable leverage created, the 18 sampled beneficiary MFIs increased the number of borrowers overall by 10 million (+106 percent). They now represent 69 percent of the total clients of MFIN members, compared to 51 percent in 2010. The growth in clients was particularly pronounced in states like West Bengal and Maharashtra, which both show an increase of microfinance clients of over 150 percent since 2010.

61. **Impact on livelihood of clients.** There is some suggestion that the availability of microcredit helped improve the livelihood of the borrowers. An impact assessment carried out for the largest MFI in 2013,[28] showed that the annual household income of borrowers increased around INR 3007 (~US$47) per loan, with the average borrower having four loans per year. This translated into an increase of 13.8 percent of annual household income. The study also concluded that microfinance clients were able to improve their quality of life through possession of consumer durables or increased consumption of lighting, electricity, and cooking fuel (also see section 3.5). Another assessment carried out by one of the visited MFIs compared client's progress out of poverty indicators over four loan cycles. The data shows a slight downward trend in poverty. While in the first loan cycle, 39 percent of the sample had less than US$1.25 purchasing power parity per day, the percentage dropped to 34 percent in the fourth loan cycle. This positive impact is in line with feedback received during the evaluation mission and client interviews during supervision missions. The positive impact of microfinance can also indirectly be shown by the impact of the crisis on former recipients of microcredit. The Centre for Microfinance (2012) found that—due to the curtailing of lending by MFIs in the aftermath of the Andhra Pradesh crisis—85 percent of the surveyed households had to cut their overall expenditures, including for consumption, business, and education of their children.[29]

(c) Usage of innovative financial products
Rating: Satisfactory

62. **Equity and subordinated debt.** Equity and quasi-equity investments by SIDBI were new products introduced under the project. The project itself provided subordinated debt and equity to three entities, totaling INR 1061 million (US$19 million). In consecutive years, SIDBI also disbursed equity and quasi-equity funding of INR 1.38 billion (~US$21 million) under the IMEF to 45 smaller MFIs headquartered in 15 states.[30]

63. **Loan maturities.** Beneficiary MFIs confirmed that the maturity structure of the SIDBI loans was generally longer than funding availed from other sources. The maturity ranged from 30 to 61 month for project funds, compared to 12 to 24 month for lenders under the priority-lending envelope. The comparatively more 'patient' funds eliminated costs for annual renewal of loans and provided more stability on the liability side. Smaller MFIs also benefited from support from SIDBI's risk guarantee fund, which brought the security deposit for SIDBI loans down from 10 percent to 2.5 percent. For smaller MFIs, SIDBI's funding was therefore slightly cheaper than other funding sources from the market.

64. **Impact.** The equity investments helped the large MFIs maintain the capital adequacy requirements of the RBI while attracting additional funds from lenders. For the smaller MFIs, an impact assessment carried out in 2015 confirmed a positive impact, similar to the one described above for SIDBI loans. The impact was more robust for NBFC-MFIs, who generally have a higher level of professionalism than NGO-MFIs. The SIDBI funds also helped reduce the interest rates for microfinance loans over time. The RBI guidelines cap interest margins to 10 percent currently. Lower average funding costs help reduce interest rates over time, directly benefiting the final

[28] See Bandhan (2013)
[29] Ghiyazuddin and Gupta (2012)
[30] Data according to the impact assessment carried out by SIDBI in 2015.

borrowers. According to MIX Market, the yield on gross portfolio dropped from a weighted average of 25.1 percent in 2010 to 22.5 percent in 2014.

(d) Progress towards responsible finance

Rating: Satisfactory

Box 4. Sector wide Reform Context

Since 2010, the microfinance sector in India made substantial progress towards introducing responsible finance practices. This includes the following activities.

- Supported by the IFC, Credit Bureaus now cover microloans. The Credit Bureau, which was the first to introduce this service in 2011, currently receives information from 201 MFIs, and has 240 million reports and 40 million active borrowers in its database. Most MFIs now check the credit history of their clients before disbursing the loan, to be compliant with the RBI requirements on over-indebtedness of clients.
- Pricing and information transparency increased. Interest is now predominantly calculated based on declining balance and the loan cards include information on the up-front fee, insurance premium, and coverage as well as installment and loan amount. However, the information is provided by some entities in nominal terms, in others given as a percentage rate or disaggregated into individual components. The different notation still makes comparison between MFIs a bit more difficult for people with limited financial skills.
- Formal processes for grievance mechanisms are now in place for NBFC-MFIs, in line with the RBI fair practice guidelines. The information on processes is included on the loan cards, as well as a hotline number to call.
- Internal control systems improved. MFIs implemented better financial management system and enhanced internal controls to monitor loan appraisal and supervision and overall risks.[1] Systems for capacity building of staff were also strengthened, although deficiencies in the quality of loan appraisals were still noted.
- The sector associations now offer hotlines for inquiries and complaints of MFI clients. They also developed a joint Code of Conduct, and have started monitoring compliance. MFIN has for example recently mandated that the member MFIs should collect and report the Aadhaar number of their client to the credit bureau, if the Aadhaar penetration in the district is over 70 percent.

Source: Own compilation.

65. The project nurtured the actual implementation of the responsible finance reforms, and helped identify remaining gaps (also see box 4 for sector wide reform context, and annex 2 for an in-depth discussion of outputs and impact).

(a) A COCA tool was developed under the project, and made mandatory for receiving SIDBI funding. This is the first such initiative worldwide by an apex organization, and has already attracted interest in other countries. Sector stakeholders confirmed that the COCA is a core industry assessment, which both funders and the sector refer to. Nevertheless, other assessments have emerged over time, and an ‘assessment fatigue’ was noticed in the sector. Moving forward, some consolidation, and quality control appears to be therefore warranted.

(b) The assessments helped introduce and monitor progress of reforms in all areas of responsible finance. Before being assessed in 2011, two of the large MFIs changed, for example, their interest rates to a declining balances scheme, eliminated security deposit requirements, introduced loan utilization checks for all loans, and established a toll-free number for customers. However, the five entities conducted COCAs, each using their own (slightly different) format, which reduces the comparability of the assessment between MFIs and over time.

(c) Loan covenants under the line of credit followed up on identified weaknesses in the COCA and discussed progress made during the semiannual PAC meetings with the beneficiary MFIs. This helped create awareness for more far-reaching reforms and fostered actual reform implementation. However, the loan documents included a number of covenants, and field staff also had to monitor a variety of other topics, in particular financial soundness. Monitoring and follow-up on covenants on responsible finance was therefore uneven.

(d) The lender's forum helped create consensus on responsible finance standards amongst lenders and 12 lenders agreed to voluntarily include a set of loan covenants to foster responsible finance when lending to MFIs. In the absence of a monitoring system, information on actual implementation is however not available.

(e) The lender's forum has also become a recognized platform for information exchange and for discussing emerging concerns and issues in the sector. This proved particularly useful in the aftermath of the Andhra Pradesh crisis, where issues such as rescheduling of loans extended to MFIs were discussed and a joint approach to some of the emerging issues explored. Furthermore, findings from studies financed under Component 3 (see annex 2) were discussed, and data requirements for a common data platform elaborated. With these activities, the lender's forum plays a critical role in bridging the still existing information asymmetries between MFIs and their funders and for determining needed reforms.

66. The project also supported the development of a data platform that collates and disseminates financial and operational information on MFIs in India and provides in-depth information on the funding side of MFIs. Quarterly heat maps with state-wise information on microfinance penetration and an 'All India Benchmarking' report that analyzes financial and operating trends in the industry were developed. The project provided support increased the availability and quality of data on the sector. This proved particularly challenging for smaller MFIs, which did not yet have the habit of regularly reporting on a standardized set of data. The enhanced scope and quality of collected data directly benefits the users of the global MIX Market platform. Furthermore, stakeholders interviewed during the mission confirmed that the heat map is a useful tool, which—together with the credit bureau information—helps identify pockets of overheating, and prioritize growth.

67. The project helped increase the availability of Aadhaar numbers among microfinance clients. A couple of MFIs are now holding Unique Identification Authority of India (UIDAI) outreach events for their clients, where they can sign up for the Aadhaar. This is expected to greatly enhance the reliability of the credit bureau information over time.

3.3 Efficiency

Rating: Highly satisfactory

68. **Cost effectiveness.** The implementation of activities under Components 2 and 3 only required 6 percent of the initially estimated costs. The remaining balance was made available for disbursements under Component 1 and fully disbursed. Overall, 99 percent of project funds were channeled into income-generating activities (compared to an estimated 90 percent at appraisal). Cost effectiveness has therefore been high.

69. **Financial rate of return.** As detailed in annex 3, the financial rate of return has been positive for both SIDBI and the beneficiary MFIs. So far, the project is estimated to have generated income of US$22 million for SIDBI and around US$15 million to beneficiary MFIs. The income generated is likely to increase over time, if revolving project funds are being reinvested into the sector.

70. **Economic rate of return.** In addition to the created financial returns, the project created a number of positive economic impacts and externalities (see annex 3 for details). These include increased tax income for the government, additional income for SIDBI to provide technical assistance to the sector, as well as improved annual household income of for microcredit clients. Furthermore, a share of the generated MFI profits was used for a social responsibility project, which targeted the most vulnerable segments of the population and supported measures to alleviate poverty (see section 3.5c).

3.4 Justification of Overall Outcome Rating

71. The overall outcome is rated Satisfactory. The project design and institutional setup remained relevant over time, and efficacy of reaching the stated development objective was satisfactory, with some of the reforms even having achieved highly satisfactory outcomes. Furthermore efficiency was highly satisfactory.

72. Overall, the project played an important role for fostering outreach and performance of the microfinance sector. It had a major impact on the scaling up of microfinance services to underserved areas of India, and helped foster responsible lending practices. The latter included disclosure of interest rates, availability of grievance mechanisms, and use of the credit reporting infrastructure and internal control systems. While these achievements cannot solely be attributed to the project, SIDBI and the project were nevertheless a catalyst for sustaining the focus on the sector during the crisis, for leveraging funding to the sector, and for fostering actual implementation of the regulatory reforms and international best practice in the area of responsible finance. With the availability of the credit bureau information and the RBI guidelines established, the sector is now in a much better situation than it was in 2010.

3.5 Overarching Themes, Other Outcomes, and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

73. The project contributes to poverty alleviation. As confirmed by interviewed clients and stakeholders, the reduction in household poverty mostly stems from the expansion of the households' business, mostly through more or better quality working capital and expansion into

new markets. Given the small loan sizes, Bandhan (2013) however concludes that the impact is too small to generate additional labor, or upgrade to innovative production techniques. The impact on poverty alleviation is therefore gradual.

74. The availability of microcredit helps low-income households bridge unexpected expenditures, which has a positive impact on their overall well-being and their ability to smooth consumption. The Bandhan (2013) impact assessment concluded that microfinance clients have a higher likelihood of selling assets in the case of emergencies, as they were able to create these assets over time. Microfinance clients interviewed for the evaluation also revealed that they are considered more creditworthy by their peers, as the latter know that they will be paid back when the borrower gets a new loan. This increases the ease with which they can borrow informally from neighbors and family in cases of emergencies.

75. Most of the supported microfinance borrowers are women. They usually take out the loan to support the business of their husband or a family business. Some of the interviewed loan officers indicated that women are gaining a better social position in the families because they are able to avail the loan. This positive impact could however not be consistently confirmed by the impact assessment of Bandhan (2013). The mission team noted that the attendance of women in the center meetings and their participation in the up-front training give them a sense of pride and voice. Branch managers also reported that women are now more comfortable speaking during the meetings.

(b) Institutional Change/Strengthening

76. The project had a positive impact on institutional strengthening of the beneficiary MFIs. The COCAs, as well as the intensive monitoring of beneficiary MFIs during project implementation, helped MFIs assess strength and weaknesses in their operations, and fostered uptake of responsible finance practices.

77. The project also supported improvements in the financial reporting infrastructure. While most of progress made has to be attributed to the credit bureaus themselves and the support provided by the IFC, the project however contributed by enhancing uptake of reporting by the beneficiary MFIs and through fostering use of the Aadhaar number.

(c) Other Unintended Outcomes and Impacts (positive or negative)

78. The increased profits of the beneficiary MFIs had a positive impact on the scale of their social responsibility projects. The latter is usually linked to their annual profits. Support provided through these social responsibility projects include the following:

(a) As part of its 'ultra-poor project', Bandhan's NGO supports extremely poor women who have no assets and rely on begging for their livelihood. The participants receive a one-time productive asset transfer, livelihood training, and capacity building in the area of finances and health. A recent evaluation study shows that the participant's consumption permanently increased by 26 percent due to the intervention.[31]

[31] See results as presented on the Poverty Action Lab's webpage https://www.povertyactionlab.org/node/11547

(b) Ujjivan provides financial education training through an affiliated NGO, which also helps participants open a bank account. Ujjivan also implements a wide range of community development projects like fixing wells, installing water tanks, upgrading hospitals, building bus stands, or repairing toilets in schools.

(c) SV Credit Line annually decides on the social responsibility programs it supports. This year it will sponsor ambulances.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable

4. Assessment of Risk to Development Outcome
Rating: Modest

79. SIDBI continues to provide funding and capacity-building support to MFIs under its Foundation for Micro Credit unit. SIDBI's outstanding portfolio as of March was INR 25 billion (~US$390 million), which includes the revolving funds under the Bank line of credit. SIDBI continues to use the same procedures and guidelines as for the Bank's line of credit. SIDBI also manages the IMEF equity fund and the Portfolio Risk Fund. The Foundation for Micro Credit unit is directly funded under SIDBI's budget, and its operations have continued uninterrupted after project closing.

80. Initiatives supported under Component 2 will also continue, with funding being made available from both public and private sources. A lender's forum meeting has already taken place after project closing and considerations are made to give the forum a more formal role and to create a permanent secretariat funded by the lenders themselves. The COCAs have remained an important assessment tool in the sector, with MFIs and sector associations carrying out the assessments with own funding sources. The information platform created by MIX Market under the project has now been finalized, with the payment for this second phase covered directly by SIDBI (because of the project's closing). MIX Market is seeking to make the platform self-sustainable through user fees and subscriptions.

81. The undertaken reforms have put the sector on a more solid path of development, but some vulnerabilities remain. There is currently renewed concern of a potential overheating in selected pockets of the country. In three states, the incidence of borrowers with multiple loans has resurfaced, despite the availability of credit bureau information.[32] Given the growth of the industry, 77 percent of the districts in India are now being covered by five or more microfinance providers and competition is heating up. Other potential sources of vulnerability include the low level of financial literacy of the clients, the still basic loan appraisal techniques, as well as the lack of uniform transparency standards, which, for example, make comparing prices and loan conditions between MFIs more difficult.

[32] see the recent article from CRIF HighMark, http://www.crifhighmark.com/News-and-Events/Pages/Rapid,-Responsible-growth-in-Microfinance-balance-it-with-care-and-caution-(by-Kalpana-Pandey,-Inclusive-Finance-Summit-201.aspx

82. A number of factors, however, mitigate the impact of these vulnerabilities and further reform efforts are already on the way. The sector is now much more diversified, with the five most covered states accounting for 47 percent of the loan portfolio compared to the 30–40 percent of the loan portfolio being concentrated in one state in 2010. Individual entities also have a much more diversified loan portfolio, although many still have a considerable concentration in one state. Heat maps help monitor depth of microfinance penetration on the district level and further efforts are made to break the information down on the PIN code (zip code) level to get a better picture. Both should be able to give early warning signals and put in place remedial measures on time. Regional lender forums have been created to allow discussion and monitoring on a regional level. Furthermore, the sector association, MFIN, is making it mandatory for its members to report a client's Aadhaar number, which will help improve reliability of the credit report data and reduce potential for cheating. Efforts are also made to incorporate data on borrowers of SHGs in the credit bureaus. Finally, internal control systems in MFIs have been established and include regular field visits by managers. The sector associations are in the process of developing industry standards and have established mechanisms to support their implementation. All this should help further improve transparency and mitigate potential risks. Given the above, risks to development outcome appear moderate at this stage.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry
Rating: Satisfactory

83. The project design was straightforward and innovative, and addressed an identified development need of the government. It was based on an adequate needs assessment and benefitted from sound implementation arrangements, as well as detailed financial management, disbursement, procurement, and safeguard arrangements. Risks to development were adequately identified, although their impact on the sector were—with hindsight—underestimated. While the design of the results framework had some weaknesses and led to a dearth on consolidated data on the project beneficiaries, the arrangements for supervision on the ground were sufficient to compensate this and allow for close monitoring of individual MFIs during supervision.

(b) Quality of Supervision
Rating: Satisfactory

84. The proactive supervision of the Bank was praised by the counterparts and helped maintain the reform momentum during the crisis and afterwards. During the crisis, the team reiterated the importance of continuous support to the sector, thereby helping SIDBI stay financially engaged in the sector. The Bank team remained focused on monitoring progress toward the development objective and encouraging far-reaching reforms in the area of responsible finance. The latter included for example, suggestions to incentivize the uptake of responsible finance reforms through on-lending interest rates, the push for putting in place a more formal mechanism for the lender's forum, or the linking of SIDBI with the UIDAI to foster the uptake of the Aadhaar number by microfinance clients.

85. The Bank team comprised technical experts familiar with the sector and the country, who were highly recognized by stakeholders for their expertise and knowledge. This facilitated monitoring of progress made on the ground, as well as identification of further development needs and potential drivers for reforms. Findings of the missions were candidly reflected in the implementation support documents and agreed actions spelled out. This included monitoring of earlier agreements. However, the team should have pushed for consolidated data on the beneficiary MFIs and made an effort to revise the KPIs of the project to remedy the weaknesses identified in section 2.3.

86. Monitoring of fiduciary compliance and safeguard aspects remained a focus during project implementation. The Bank missions usually included two financial management specialists and one safeguards specialist. Regular field visits were conduct to spot-check compliance. Findings were documented and the implementation of remedial actions monitored.

(c) Justification of Rating for Overall Bank Performance
Rating: Satisfactory

87. In accordance with the Independent Evaluation Group guidelines, the overall Bank performance is rated Satisfactory.

5.2 Borrower Performance

(a) Government Performance
Rating: Highly Satisfactory

88. As described in section 2.2, the government remained committed to project implementation and supported the sector through additional reform programs and funds. The RBI also supported reforms through putting in place guidelines and regulations. The latter helped the sector emerge from the crisis and had a strong positive impact on the actual uptake of responsible finance reforms. Funding under the IDA credit was made available to SIDBI without delay. ˜

(b) Implementing Agency or Agencies Performance
Rating: Satisfactory

89. SIDBI continues to have a leadership role in the sector, and has pushed for responsible finance reforms through the development and rollout of the COCA tool and through including covenants in loans. It proactively initiated the lender's forum and helped identify and discuss remaining issues through commissioning studies and disseminating their findings. The COCAs have become a recognized industry assessment, also used by other lenders and the sector itself. While follow-up on covenants and identified findings should ideally have been stronger, the approach has overall helped implement reforms and made nurturing of responsible finance as part of market-based on-lending possible.

90. Fiduciary compliance remained satisfactory throughout the project. SIDBI has an elaborated system in place to appraise MFIs and supervise their financial performance during implementation. The solid appraisal skills and close monitoring on the ground contributed to the positive outcomes of the project. Financial reports were generally of solid quality and no major issues in the area of financial management, procurement, or safeguards were noted. The

established systems will continue to be used for SIDBI's own loan portfolio and the revolving funds under the line of credit.

91. While SIDBI collects a wealth of information during the supervision process, the information is however not yet systematically consolidated and digitalized. Information on actual follow-up on loan covenants is, for example, not readily available at the headquarters level, and information on outreach and performance indicators of the supported entities is not consolidated. While this has not had an impact on the quality of the monitoring of individual entities and investments, it however impedes the assessment of the portfolio's overall impact and progress achieved.

(c) Justification of Rating for Overall Borrower Performance

Rating: Satisfactory

92. In accordance with the Independent Evaluation Group guidelines, the overall borrower performance is rated Satisfactory.

6. Lessons Learned

93. The project has provided valuable lessons learned for nurturing responsible finance in combination with scaling up support.

94. General lessons learned:

(a) The project reiterates the importance of strong ownership of the government and the implementation agency. The support of the government and the RBI after the crisis, as well as the RBI's development of regulations to foster responsible finance, largely contributed to the depth of achieved reforms. The implementation agency, SIDBI, played an important role for encouraging the uptake of reforms and for making the project-supported initiatives sustainable over time.

(b) The project demonstrated the complementary role a line of credit can play for enforcing compliance with new regulations and guidelines. Most financial sector supervisors find it difficult to closely monitor and supervise the market conduct of NBFCs given their number and limited systemic importance. As done in the project, some of the monitoring can be carried out through standardized assessment of compliance and reforms incentivized through loan covenants.

(c) In an environment, where commercial funding is generally available, stringent loan covenants to implement reforms are more difficult to implement and the outcome is more gradual. The project's approach of gently pushing MFIs to implement more far-reaching reforms, highlighting institutional weaknesses through assessments and seeking follow-up dialogue for nurturing additional change has shown to be feasible in this environment. It however requires a strong commitment and reputation of the implementing agency as well as close monitoring of the Bank team to be successful.

(d) Follow-up projects or similar projects in other countries should consider including support for assessing and enhancing the country's legal and regulatory framework for consumer protection and for fostering the development of institutional structures to monitor actual implementation of responsible finance measures on the medium to long term. This will help create institutional structures to follow up and monitor adherence to responsible finance practices from within the sector.

(e) This support on the supply side should ideally also be complemented with a more systematic use of financial awareness and information tools to improve the quality of demand for financial services. This is particularly important for newly banked clients, but also needed to help existing clients understand their rights and responsibilities, and foster uptake of available information by the clients.

95. Lessons from individual reform efforts:

(a) A lender's forum can be a useful tool to exchange information and agree on needed reforms. However, to develop and implement common standards for lending, a more formal institutional structure should be considered, that can help develop Codes for Lending and joint templates for reporting and assessing performance and monitor actual implementation. This requires a clear mandate, including strong political commitment.

(b) While standardized assessments such as the COCA can help identify weaknesses and monitor compliance, attention has to be placed on not overburdening the sector with assessments. Furthermore, the quality of the assessments should be ascertained through independent reviews and technical assistance considered as follow-up on identified weaknesses.

(c) To implement a data platform as envisaged under the project, a strong incentive for reporting has to be given to the entire MFI sector. While SIDBI's loan covenants were sufficient to ascertain reporting of the beneficiary MFIs, it has proven to be a challenge to get data from the other MFIs. Furthermore, a substantial amount of hand-holding and technical assistance has to be factored in to improve the quality of the submitted data. This is a challenge particularly for smaller MFIs, as they do not have fully automated information systems established as yet.

96. Lessons from the administrative side of project implementation:

(a) To assess long-term achievements and trends of reforms, it is necessary to aggregate data on the beneficiary MFIs and monitor performance also on a consolidated level. In a decentralized structure like SIDBI, this requires establishing a standardized electronic format for reporting from the branch level to the unit in charge at the central level.

(b) When involving external auditors for verifying compliance with loan covenants, a detailed checklist should be developed. As shown in the project, this helps ascertain that the auditors verify implementation in sufficient detail and with consistent quality.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

97. In preparation for the ICR mission, SIDBI developed a completion report in January 2016, in which it presented a summary of the project's outputs, information on the PDO indicators, as well as discussion of achievements made. The summary assessment on achievements and learnings is included as annex 7.

98. According to SIDBI's own completion report, the project was implemented successfully and has created significant impact on the sector. Indicators for the success of the project include (a) the recent RBI approval allowing seven participating MFIs to convert into small finance banks and one participating MFI to convert into a full bank, (b) initiatives such as the COCAs and loan covenants, which helped MFIs to become more proactive toward adherence to responsible lending tenets, and (c) the continued interest of the sector in availing funds with a longer tenure (as done under the project), which helped SIDBI develop a new financing scheme.

99. In the report, SIDBI also confirmed that they will continue to provide scaling up support to MFIs and that promoting responsible financing will remain a focus in future lending to the sector.

(b) Cofinanciers
Not applicable

(c) Other partners and stakeholders
Not applicable

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in US$, millions equivalent)

Components	Appraisal Estimate (US$, millions)	Actual/Latest Estimate (US$, millions)	Percentage of Appraisal
1.Scaling Up Funding Support for Microfinance Institutions	292.75	299.37	
2. Strengthening Responsible Finance	3.75	0.28	
3.Capacity Building and Monitoring	3.50	0.35	
Total Baseline Cost	300.00	300.00	
Physical Contingencies	0.00	0.00	0.00
Price Contingencies	0.00	0.00	0.00
Total Project Costs	0.00	0.00	
Front-end fee PPF	0.00	0.00	0.00
Front-end fee IBRD	0.50	0.50	0.00
Total Financing Required	300.50	300.50	

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (US$, millions)	Actual/Latest Estimate (US$, millions)	Percentage of Appraisal
Borrower		30.00	37.19	123
International Bank for Reconstruction and Development		200.00	199.50	99.8
International Development Association		100.00	103.27	103.2

Note: Components 2 and 3 of the project funded out of the IDA component together disbursed US$631,410.56.

Annex 2. Project Outputs by Component

Component 1

1. Under Component 1 23 MFIs received loans. This directly benefitted 1.64 million clients. 89 percent of the disbursements were made for loans in underserved areas.

2. Two MFIs also received equity support in the range of INR 312 million, and another entity received funding in the form of subordinated debt.

Component 2

3. **Lender's forum.** The project funded 8 of the 10 meetings of the lender's forum carried out between 2010 and 2015.

4. **COCAs.** The project funded the development of the initial template, as well as 72 assessments of MFIs.

5. **Information platform.** The project financed the development of the India Micro Finance Platform (IMFP), and the development of three analytical products.

- The 'All India Benchmarking Tables'
- The 'Microfinance Geographic Index' (heat map)
- The 'Top India Ranking'

Component 3

6. **Sectoral studies.** The project commissioned and funded a number of studies and assessments.

- Interest Rate Study (2011)
- Study on the viability of Indian MFIs (2014)
- Impact Assessment Study of MFIs (2014)
- Code of Conduct Summary Report (2014)
- Study on Responsible Microfinance Practices by MFIs (2014)
- IMEF Impact Assessment Study (2015)

7. **Administrative support.** Support for information technology development, audits, and training of SIDBI officials.

Background Information for the Discussion of Efficiency of Responsible Finance Reforms Supported under the Project

8. **Loan covenants.** SIDBI incorporated covenants into their loan agreements to ascertain compliance with the RBI regulations, and selectively included covenants to follow up on findings from COCAs or other sources of information.[33] The adherence with RBI guidelines was regularly verified through a chartered accountant. When additional covenants had to be introduced, they were either made conditional for receiving disbursements under a second tranche, or (in the majority of cases) monitored and discussed during the semiannual PAC meetings. This approach helped create awareness for responsible finance in MFIs and fostered reform implementation.[34] However, the loan documents included a number of covenants and field staff also had to monitor a variety of other topics, in particular, financial soundness. Monitoring and follow up on covenants was therefore uneven.

9. **COCAs.** A COCA tool was developed under the project and made mandatory for receiving SIDBI funding. It covers topics such as client orientation/education, transparency in loan pricing, quality of loan appraisal, as well as compliance with sector wide Code of Conduct and the RBI's guidelines on fair practices. This is the first such initiative worldwide by an apex organization, and has already attracted some interest in other countries.

10. Sector stakeholders confirmed that COCAs are recognized industry assessments, which both funders and the sector refer to for assessing in more depth an entity's compliance with RBI guidelines and the sector's Code of Conduct. So far, around 100 COCAs were conducted, of which 72 were funded by the project and placed in public domain. SIDBI uses the COCAs to identify needed reforms and to introduce loan covenants in the loan agreements. Repeat assessments have been carried out for most NBFC-MFIs.

11. The assessments helped introduce and monitor progress of reforms in all areas of responsible finance. Before being assessed in 2011, two of the large MFIs changed, for example, their interest rates to a declining balances scheme, eliminated security deposit requirements, introduced loan utilization checks for all loans, and established a toll-free number for customers. According to the COCA study carried out by MicroSave (2014), most MFIs now have a toll-free number for grievances, and provide information on the loan card and during client orientation. Other areas of noted improvements include internal control systems for loan origination and monitoring, use of credit bureau information, as well as overall compliance with RBI regulations.

12. However, the five entities offering COCAs each developed their own format, which reduces comparability of the assessment over time. Furthermore, a number of other assessments emerged since 2010, including social performance assessments. Most visited stakeholders

[33] CGAP (2012) praised this approach in its assessment of apex institutions. The report states on page 9 that "SIDBI is raising the importance of responsible finance. It now requires all partner MFIs to implement a Code of Conduct that lays out a set of core values for microfinance, including ethical behavior, avoidance of over indebtedness, transparency, and promotion of financial literacy. This commitment has been written into SIDBI's loan agreements, which require all MFIs to undergo an independent assessment of adherence to the Code of Conduct as well as other measures to ensure transparency and ethical behavior."

[34] For one of the visited MFIs, the first COCA in 2011 identified gaps in the grievances system. No formal system for managing grievances was in place and they were not covered under the internal audit system. The new COCA in 2014 confirmed that this had been addressed.

therefore pointed to an ‘assessment fatigue’ in the sector. While COCAs continue to be among the most valuable assessments, a need to consolidate and harmonize the assessment appears warranted to increase their efficiency and effectiveness.

13. **Lender’s forum.** The lender’s forum was created proactively during project appraisal in 2009 and since initiation convened 10 times. It comprises representatives of public and private commercial banks, as well as from SIDBI and NABARD.[35] In 2015, an agreement was reached to increase the frequency of the national lender forum quarterly meetings, and to explore the creation of a secretariat to follow up on agreements and open points. Regional forums were recently created in Uttar Pradesh and Odisha to discuss regional aspects and monitor potential overheating in selected districts.

14. The lender’s forum helped create consensus on responsible finance standards among lenders. Before the Andhra Pradesh crisis, the lenders agreed on special loan covenants to MFIs to enhance transparency and foster sound growth in the sector.[36] Overall, 12 lenders agreed to voluntarily include these covenants in their loan agreements with MFIs. In the absence of a monitoring system, information on actual implementation is however not available. Feedback received during the mission suggests that implementation was likely uneven. The participants of the forum are currently exploring options for establishing a more formal institutional arrangement to follow up on open issues and monitor implementation of reached agreements.

15. The lender’s forum has also become a recognized platform for information exchange and for discussing emerging concerns and issues in the sector. This proved particularly useful in the aftermath of the Andhra Pradesh crisis, where issues such as rescheduling of loans extended to MFIs were discussed and a joint approach to some of the emerging issues explored. Given the urgency of the matter, three meetings were held in the second half of 2010 to discuss the impact of the crisis and develop common approaches. In subsequent meetings, topics such as findings from the Code of Conduct and responsible finance assessments, the interest rate study, or the evolution of the new credit bureau were discussed, and data requirements for the common data platform elaborated. With these activities, the lender’s forum plays a critical role in bridging the still existing information asymmetries between MFIs and their funders and for determining needed reforms.

16. **IMFP.** The project supported the development of a data platform that collates and disseminates financial and operational information on MFIs in India, and provides in-depth information on the funding side of MFIs. MIX Market, a global microfinance information platform, developed the IMFP. It is currently in the advanced stage of being launched and is to be funded through user fees, in particular, from lenders who seek to get in-depth information on individual entities. With project support, MIX Market has also published a quarterly heat map with state-wise

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[35] In the first meetings, representatives from 12 to 20 banks participated. Since then, around 40 representatives have attended the meetings. Furthermore, representatives from the MFI sector associations, as well as from MFIs, the RBI, and the Bank were selectively invited to the meetings.

[36] These included covenants requiring the disclosure of all-inclusive interest rates, measurement of adherence to the sector’s Code of Conduct through a COCA, disclosure of a Board approved note on recovery practices, existence of a Board approved strategy to check multiple borrowing and overindebtedness, existence of an adequate grievance redressal mechanisms, reporting of operational and financial data to an information platform, as well as reporting to a credit bureau.

information on microfinance penetration and developed an 'All India Benchmarking' report that analyzes financial and operating trends in the industry.

17. The provided support increased the availability and quality of data on the sector. In 2010, MIX Market only received quarterly data from 24 of the 120 reporting MFIs, with a number of inconsistencies and gaps in the provided data. While the number of reporting institutions dropped to 90 because of the impact of the Andhra Pradesh crisis, all institutions are now providing quarterly data. The quality and consistency of the collected data improved because of efforts to harmonize data reporting formats across MFIs and to eliminate noted inconsistencies in the data.[37] This proved particularly challenging for smaller MFIs, which did not yet have the habit of regularly reporting on a standardized set of data. The enhanced scope and quality of collected data directly benefits the users of the global MIX Market platform. Furthermore, stakeholders interviewed during the mission confirmed that the heat map is a useful tool, which—together with the credit bureau information—helps identify pockets of overheating and prioritize growth.

18. As the newly developed IMFP is not yet operational, it has not yet been able to reduce MFIs' burden of reporting and bridging information asymmetries between lenders and MFIs. MIX Market discussed the suggested data formats with lenders in the lender's forum, to ascertain that the most relevant information needed by funders is being captured. However, no formal consensus on this has been reached so far. It is therefore not yet clear whether lenders will on the medium term switch to getting their information through this platform. It has also proved difficult to convince MFIs to report the depth of information needed, as they do not yet see the benefit of this. As is, MFIs still have to send individual reports to each lender, which depending on the size can be up to 100 entities. This creates a substantial administrative burden on the MFIs and is costly. A stronger push will be required to harmonize the reporting requirements between lenders and to foster use of a single point of entry for information.

19. In the meantime, other initiatives have also emerged, including the availability of credit bureau data and data collection efforts by the self-regulatory agencies. As part of their role as self-regulatory organizations, the two sector associations now collect in-depth information from their members, and publish consolidated information on their webpage.[38] Both credit bureaus and SROs also compile heat maps and determine gaps in coverage and pockets of overheating. These initiatives mostly address information needs of the MFIs and their supervisory bodies and do not provide in-depth data for lenders to bridge information asymmetries. The above supported initiative therefore remains relevant, but a stronger collaboration between the various players should be fostered to reduce the burden of reporting and make available data more consistent.

20. **Unique identification.** To improve the quality of information in the credit bureaus, the project supported the rollout of the unique identification number, Aadhaar. Penetration of the Aadhaar number throughout India continues to be uneven and in some areas of the country is even below 10 percent.[39] In the absence of a unified identification number, the information in the credit

[37] It should be noted that despite these improvements, MIX Market data is based on self-reported data from individual MFIs, but is not validated independently.

[38] See, for example, MFIN's quarterly MicroMeter reports.

[39] See regional penetration statistic on UIDAI's webpage. Uttar Pradesh, which already has a solid coverage of microfinance services, has, for example, an Aadhaar penetration of 57 percent, with mostly rural and low-income people not being covered. This has an impact on the quality of the available credit bureau infrastructure.

bureaus is not fully reliable, as borrowers can be listed under different identification numbers. To help increase the availability of Aadhaar numbers among microfinance clients, the project helped link MFIs with the government authority, UIDAI. A couple of MFIs are now holding UIDAI outreach events for their clients, where they can sign up for the Aadhaar. This is expected to greatly enhance the reliability of credit bureau information over time.

21. **Studies.** With project support, a number of studies were conducted to help identify trends and bottlenecks in the uptake of responsible finance reforms and bring this to the attention of stakeholders. The summary assessment of COCAs (2013) highlights, for example, sectorwide deficiencies in the loan appraisal processes, where income and expenditure are largely based on self-reported data from the borrower, and where few loan officers are adequately trained to carry out a more solid analysis. It also points out that many clients have limited awareness of the full terms of a loan and do not understand the concept of a declining balance interest rate or annual effective interest rate. These deficiencies, which were still noted during the evaluation mission, were discussed in the lender's forum.

Annex 3. Economic and Financial Analysis

1. **Financial rate of return.** None of the project loans to beneficiary MFIs became nonperforming during project implementation. SIDBI was able to on-lend the funds at a market-based interest rate, which covered the costs of the Bank funds and SIDBI's operational costs for managing the line of credit and assessing the sector entities. Assuming that SIDBI reinvested the revolving funds back into MFI loans and that the profit margin on those loans was in line with SIDBI's overall return on assets (2 percent in 2015), the disbursements (calculated on a cumulative basis) are estimated to have generated a return of US$22 million so far.

2. The disbursed funds also generated a positive financial return for beneficiary MFIs. The nonperforming loans in the sector dropped from 1.8 percent in 2010 to now 0.4 percent, with the larger MFIs showing lower ratios. Only two of the beneficiary MFIs reported temporary losses in 2011 and 2012 because of provisions and write-off of loans in Andhra Pradesh, but since then all beneficiary MFIs were again able to report annual profits. The sector now reports positive return on assets (ROAs) of around 2 percent, with the more mature entities showing an ROA of 3 percent and higher. Using the sector's annual ROAs as a proxy for the financial rate of return generated by the line of credit,[40] the line of credit is likely to have generated an income of US$15 million for the beneficiary MFIs. Given the funding leverage created by the project loans, as well as efficiency gains through increased scale of operations, the actual impact on generated income is likely to be a multiple of this.

3. Based on the above, the project created a positive financial rate of return overall. Further returns are expected over time, as the revolving funds will be reinvested into the sector by SIDBI.

4. **Economic rate of return.** In addition to the discussed financial return, the project created a number of positive economic effects:

- The generated income provides additional resources for SIDBI's technical and capacity building support to the sector. This is expected to improve the sector's performance and soundness over time and help sustain growth.

- The increased profits in the microfinance sector created additional tax income for the government.

- As indicated by available impact assessments, a number of borrowers were able to scale up their income generating activities or diversify income sources because of the availability of microcredits. This had a positive effect on households' annual income. Other borrowers benefitted from the increased availability of MFI loans by reducing their reliance on more expensive informal funding sources, thus reducing overall expenditure.[41] Both can contribute to poverty reduction over time.

[40] Data based on the reported sector ROAs in MFIN's MicroScape (2014/15).

[41] See MicroSave (2012), which discusses the impact of the Andhra Pradesh microfinance crisis on the clients. The assessment shows that 71percent of the former MFI clients sought loans from other sources, with 59 percent indicating that they had to use moneylenders to bridge financing gaps. The latter usually charge interest rates in the range of 36 percent–120 percent per annum.

- The loan contributed to favorable interest-rate development in the industry. While the noted reduction in the interest rate has to be largely attributed to the RBI regulation on interest margins, the loan has nevertheless helped increase competition in the market, increase transparency in reporting of interest rates, and supported monitoring compliance with the RBI regulation. This helped bring down the interest rate over time and made loans more affordable for clients.

5. Furthermore, a number of other externalities were generated:

- The line of credit helped MFIs increase their outreach to new areas, thus diversifying their loan portfolio. This will help mitigate risks of a renewed overheating in selected pockets of the country, should this occur, and help shield the MFIs and their clients from the ensuing impact on the viability of the institutions.

- The generated profits in beneficiary MFIs increase the funding envelop for their social responsibility projects. As discussed in more depth under section 3.5c, MFIs support community-based activities and poverty alleviation measures through separate funding vehicles. This helps reduce vulnerability of the most needy.

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Addepalli, Sita Ramakrishna	Sr. Environmental Specialist	GEN06	Environment Specialist
Markels , Michael	Lead Financial Sector Specialist	SASFP	Team Member
Narayan Singh, Kumar Amarendra	Social Development Specialist	SASDI	Social Specialist
Niang, Cecile Thioro	Program Leader	LCC3C	Team Member
Pilch, Gennady	Lead Counsel	LEGOP	Lawyer
Safavian, Mehnaz S.	Lead Financial Sector Specialist	GFM01	Team lead
Verma, Niraj	Practice Manager	GFM06	Team Lead
Supervision/ICR			
Addepalli, Sita Ramakrishna	Sr. Environmental Specialist	GEN06	Environment Specialist
Sakshi Varma	Operations Officer	GFM06	Team member
Girish Bhaskaran Nair	Senior Operations Officer	GFM06	Team Member
Chan, Rosanna	Economist	GTI09	Team Member
Deshpande, Atul	Sr. Public Sector Specialist	GGO14	Team Member
Ilka Funke	Consultant		ICR Primary author
Jaison, Shiny	Program Assistant	SACIN	Team Member
Katoch, Neeti	Research Analyst	GFM06	Team Member
Marathe Dayal, Varsha	Sr. Financial Sector Specialist	GFM06	Team Lead
Mishra, Satya N.	Social Dev. Specialist	GSP06	Social development
Safavian, Mehnaz S	Lead Financial Sector Specialist	GFM01	Team lead
Satish, Suryanarayanan	Sr. Social Dev. Specialist	GSU06	Social development
srinivas, Subrahmanya Pulle	Lead Financial Economist	GFM01	Team Member
Thakur, Sona	Sr. Communications Officer	SAREC	External Affairs
Verma, Niraj	Practice Manager	GFM06	Practice Manager

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of Staff Weeks	**US$ Thousands (including travel and consultant costs)**
Lending		
Total:	49	277379.27
Supervision/ICR		
Total:	141	669420.00

Annex 5. Beneficiary Survey Results

(if any)

Annex 6. Stakeholder Workshop Report and Results

(if any)

Annex 7. Summary of Borrower's ICR

1. In preparation for the ICR mission, the borrower prepared a report on the results of the project. The following reflects the summary assessment as included in the borrower's report of January 2016.

2. The project has been implemented successfully. The success of the project can be gauged from the fact that one of the MFI partners, that is, Bandhan Financial Services Ltd. that was supported under the project as a fledgling MFI, has since transformed into a universal bank.

3. Recently, the RBI has granted in-principle approval to 10 applicants for setting up small finance banks. Out of the 10 successful applicants, 8 are MFIs, of which 7 MFIs have been assisted by SIDBI under the project. Nurturing helps in emergence of sustainable socially oriented institutions.

4. Initiatives undertaken toward responsible lending has created a significant impact in the sector. For instance, gCOCA is being discussed in all the national conferences/platforms and more MFIs are coming forward to carry out COCA. SIDBI is looking for sustainability of the initiative in the coming years. Overall, the pursuit of the responsible finance agenda has helped bring back the Indian microfinance sector from the brink on to a growth path.

5. After assistance under the project, MFIs have become more proactive toward adherence to responsible lending tenets. A set of loan covenants toward responsible lending is being stipulated for the assistance to MFIs. It has been found that MFIs do not face any difficulty in complying with these conditions.

6. Specific or customized product development has always been a demand of the sector. MFIs of all sizes, whether large, medium, or small, have been showing keen interest in availing funds with a longer tenure. During the missions, it was discussed that there was a need to become more proactive in extending assistance to the MFI sector and considering demand for longer tenure loans. Accordingly, the Scheme for Support to Micro Finance Institutions by Longer Tenure Loans and Instruments was introduced in November 2014. Hence, the innovative approach of the project helped SIDBI to experiment with its product line and cater to the sector in a better way.

7. The Bank will continue to provide assistance to well-run MFIs by way of longer tenure loans and instruments that will be beneficial to the MFIs in maintaining stability and in managing the borrowings.

8. During the project implementation, it has been felt that the project must have the scope for engagement of a procurement expert to help SIDBI to expedite the support which involves a bidding process. Also, more visibility to the project could have been given with the help of a communication expert in the last one year of the project, which could have captured the project impact at ground level.

9. SIDBI has been well-guided by the Bank team for project implementation through various missions and meetings.

10. The Bank will continue to follow the growth strategy by scaling up support to MFIs in view of the sector being stabilized. Promoting responsible financing will continue to be the focus of all future funding to the sector.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

Annex 9. List of Supporting Documents

Bandhan. 2013. "Assessing Impacts of Bandhan's Micro-credit and Related Development Interventions." Proceedings of a workshop held at the India Institute of Management, India, January 5, 2013.

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Ghiyazuddin, M.A. and S. Gupta. 2012. *Andhra Pradesh Microfinance Crisis and its Impact on Clients*. Study published by MicroSave and the Center for Microfinance, Chennai, June 2012.

MicroSave. 2014. "Code of Conduct Assessment for Microfinance Sector – A Macro and Micro view on MFI's Compliance with Sector Codes." November 2014.