

The Impact of Business Training on Small Business Outcomes

The Centre for Micro Finance (CMF), in collaboration with SEWA Bank in Ahmedabad, has undertaken a field experiment to examine the impact of business training on SEWA's members' financial and business behavior. The primary research questions explored are the impact of a scalable business training program and the effects of receiving training with a peer. We are currently conducting a midline survey to examine the impact of training on business and financial outcomes and aspirations. Here, we report preliminary results based on clients' saving and borrowing behavior with SEWA.

A key motivation underlying efforts to expand microfinance and micro-savings is that providing credit and banking opportunities to the poor will increase their economic opportunities and generate long-run income growth, thereby helping them out of poverty. However, these services reduce poverty only if the poor are adequately positioned to take advantage of borrowing and savings opportunities to improve household and business financial management. In reality, many are not in such a position. Many of the poor lack human capital and have limited information about business and other economic opportunities. These problems are often amplified for women, who may face constraints on mobility and lack social networks to assist them with information and skill acquisition. These factors, combined with the fact that MFI clients tend to operate in high-risk environments, suggest that the returns to entrepreneurial skills and information about business opportunities gained through business training may be particularly high.

From a sustainability perspective, MFIs have an interest in business training as a catalyst to savings and loan repayment, as it helps their clients learn about loan and savings opportunities and manage their limited resources. For this reason, it is important to conduct an impact evaluation

to measure the cost and benefits of trainings and understand how they can be most effectively structured for the largest impact and for scalability. In this setting, using a randomized field experiment for evaluation is relevant since voluntary trainings are generally attended by the most outgoing, well-performing, or entrepreneurial clients. The CMF, together with SEWA, has conducted a randomized impact study that investigates the impact of a streamlined, scalable training model as well as the effect of training with a peer.

Setting

Shri Mahila SEWA Sahkari Bank was created in 1974, by the Self Employed Women's Association (SEWA) in the city of Ahmedabad, Gujarat. The bank's 170,000 member-clients are primarily women who work in the informal sector in home-based occupations such as bidi rolling, incense stick making, and tailoring, as well as vegetable vending, construction work, and rag picking. SEWA Bank is unusual in that it mainly engages in urban individual lending, unlike the rural joint liability and self help group models used in most other Indian MFIs.

For four years, SEWA Bank has run a five-day program on financial literacy, which uses lessons, games, and movies to teach modules on accounting skills, interest rates, avoiding excess debt, and the importance of long term "life-cycle" planning. Recently, it began a second five-day course, meant to supplement its financial literacy training, which teaches business skills such as marketing, cost reduction, investment, and customer service.

Design of the study training module

We designed a streamlined training module aimed at maximizing the potential to scale up such a program to micro-finance clients in other settings. The short training maximizes the efficacy of information provided to the clients. Moreover, combining financial literacy and business training can be best suited to illiterate self-employed women lacking basic numeracy skills, yet must make sound business decisions. In addition, a shorter training might attract more par-

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By Karuna Krishnaswamy

Karuna Krishnaswamy is a research associate at the CMF. He is currently working on a project to assess the implications of competition on borrowers' repayment performance. [Pg. 3](#)

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Emergency Obstetric Care Insurance

Background

Complications during pregnancy and childbirth are a significant cause of mortality and morbidity among women in the developing world. A vast majority of these conditions is preventable. Of all deaths annually caused by pregnancy or childbirth, less than 1 per cent occurs in high-income countries, though these nations experience 11 per cent of worldwide births. India alone, with 26 million births annually, accounts for over one quarter of maternal deaths worldwide (WHO, 2005).

The Centre for Micro Finance (CMF) has been working with Seva Mandir, an NGO in Udaipur district, Rajasthan, to develop an obstetric care insurance product to confront the major cause of these deaths: improper and delayed medical care, particularly in cases of medical emergencies. In Rajasthan, only 43 per cent of births are attended to by a skilled health professional (MoHFW, 2006). In rural areas, such as the zone in which Seva Mandir is active, the figure is considerably lower. Recent surveys undertaken by Seva Mandir indicate that the incidence of institutional deliveries within its precinct is approximately 22 per cent.

There are many reasons why vital medical care is not received or is delayed until it is too late to save the life or health of the woman. As pregnancy is a normal part of the life cycle, it is not commonly viewed as a condition that requires medical care. Even though, Seva Mandir has been working on reproductive and health issues for over 20 years in Rajasthan, local workers still confront an extremely low demand for maternal health care. Though there is some indication that this may be changing among the younger generations, complications are often identified only after they have become critical, when there is not enough time to reach a competent medical service provider.

There is a shortage of well-equipped maternity hospitals in both the public and private sectors in Rajasthan. In tribal areas, this shortage is acute. The government is only able to fill 30 per cent of required posts for obstetricians & gynaecologists at the community hospital level in such regions (MoHFW, 2005).

In addition to social and infrastructural im-



participants as the opportunity-cost with respect to income and time are lower.

The module was designed after a series of focus group discussions with women who had attended SEWA trainings in 2006. We used information on what elements of the training they found the most useful, what they implemented in the short run and what they retained or abandoned in the long run to condense the two five-day trainings into a two-day training (a total of 4 hours) costing approximately Rs.157 per student.

Our training had a few unique features. During the training, women would work in groups to identify one or more financial or business goals and sources of wasteful expenditure and sub-optimal business practices. Women were then encouraged to cut wasteful expenditures and put the money into savings. We introduced an inspirational element in the training, in the form of a movie, showcasing the lives of a few successful SEWA members, who have used good financial practices to bring themselves out of poverty. This helped participants visualize themselves as being able to take control of their lives and finances and tackle poverty effectively. Another unique feature was that half of the participants were invited to come alone and the other half were invited with friends. This primarily was to investigate if coming with peers has an influence on take-up, participation in class, reten-

tion and reinforcement of the training lessons.

Study Protocol

To evaluate the training module we selected 634 SEWA clients, of which a randomly sampled 423 were invited to training. The remaining 211 women serve as a comparison, or control, group. All women in the sample were either actively saving or borrowing from SEWA Bank between December 2004 and January 2006. The women in our sample were between ages 18 and 65 and were either business owners, piece-rate workers, or self-employed.

Between September 2006 and April 2007 we ran training sessions thrice a week. For each session, twelve women were invited from our sample, among which four were in the control group and not trained; four were invited with a friend and four were invited alone. The division of the treatment group into those invited with a friend or not was also randomized. To recruit the women for training, two women working with the CMF went to invite each woman accompanied by a local SEWA bank officer, or

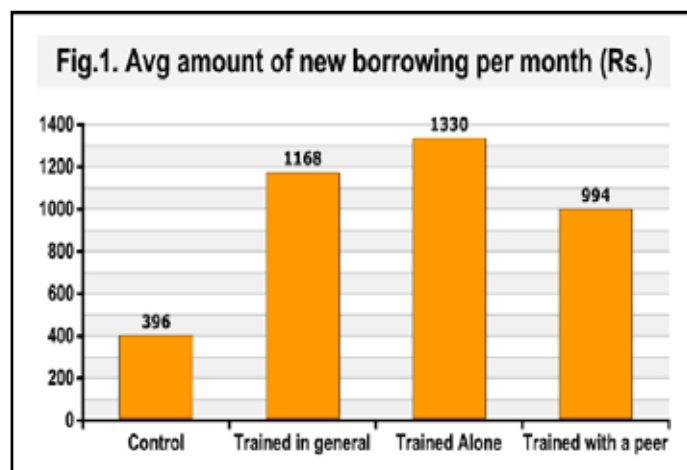
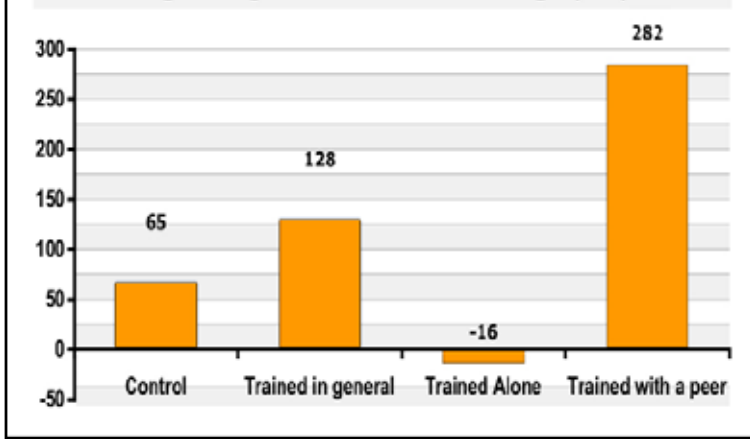


Fig.2. Avg amount of new Savings (Rs.)



“bank saathi.”

Preliminary Results

We are currently conducting a detailed survey aimed at understanding how the training affected business and financial outcomes and women’s aspirations. Here we report findings based on women’s saving and loan behavior as observed in SEWA’s bank transactions data. We find that the business training increased borrowing in general and savings for the peer-trained cohort. Figure 1 shows that the amount of new borrowing increased in general by Rs.772 with a slightly larger increase for those trained individually. The results for the peer-trained group for borrowing are statistically insignificant. In part, this is probably driven by the fact that women trained with a friend chose to increase saving – we find the monthly savings of (only) the peer treated group increased by about Rs.217 per month. As we see in Figure 2, the effect on those individually trained may be negative, although, again, the results are not statistically significant.

Importantly, the uptake of the training differed by treatment group, with 69% of those invited to peer train attending and 63% of those invited to train individually. However, the difference is not very large suggesting that being invited by a friend is not having a large effect on mobility for the average woman. The peer focus groups also partially confirm this – the majority of women stated that they would have attended the training even without their peer. A couple of women stated that they would not feel comfortable coming without their peer, because it was not natural for women in their social circles to travel alone. A further investigation into the precise social structures that promote or hinder this kind of mobility would have to be done to understand this effect in more detail. (Also see Text Box: Experience for Shobhana)

Future Directions

Our findings suggest several future avenues of research. For example, the significant impact of the peer training on savings has made us interested in a follow-up impact study that investigates why peers affect learning. Specifically, we would like

to augment the study design to distinguish between the hypotheses that the woman learned more in the classroom by virtue of having her friend there or that learning at the same time and in the session does not matter, but having your friend go through the same type of training means you are able to discuss the material afterwards which reinforces learning. Our proposed study would sometimes train a woman and her friend in the same session and other times train them both but on different days or in different classrooms.

Conclusions

Financial literacy and business training programs are being developed and used by an increasing number of MFIs. The models being used differ significantly across MFIs, but we have very few evaluations of what works in such trainings and why. There are also very limited cost analyses of such programs.

Our preliminary results indicate that women who participate in financial and business training programs change both their saving and borrowing behavior. Interestingly, some of these effects differ across women – only the women who are trained with a friend increase their monthly savings. This suggests the need for further work to help us understand the role of being trained with a friend and appropriate methods to increase the likelihood of long-term financial improvement.

Competition in Indian Microfinance

Background

In the past few years, Indian microfinance has seen unprecedented growth. For instance, during 2005–6, major Indian microfinance institutions (MFIs) were able to expand their active borrower base by about 110 per cent making the sector one of the fastest growing world wide. Loans outstanding of Sa-Dhan’s members almost doubled from Rs.1095.1 crore to Rs.2070.2 crore during the same time period. In fact, in 2005, five leading MFIs from India ranked in the list of top 20 fastest growing MFIs in the world.^{1,2} This trend was reinforced by and in turn further accelerated the commercialization of the industry. Commercialization is characterized by increased competition for clients and a clear objective to seek profitability.

1. Microfinance Information Exchange. (2005). *Transparency and Performance in Indian Microfinance 2005*. Retrieved from http://www.mixmarket.org/en/news/mix_brief_on_transparency_and_performance_in_india.asp
2. Sa-Dhan. (2007). *Side by side - A slice of microfinance operations in India 2006*. Sa-Dhan report.

Experience for Shobhana

Shobhana Pravin Nayak, a tailor from Rakhial in Ahmedabad says that participating in the two-day business counselling and financial literacy training programme exposed her, for the first time, to the endless possibilities of expanding her business. Inspired to exploit other feasible business opportunities, she diversified from tailoring into selling a wide range of other fabrics. The beginnings were humble—she asked her relative who frequently visited Kutch to procure some material so that she could try her hand at selling them. The Kutch fabric, known worldwide for its unique style sold at high profit margins. She was not only able to repay her relative, but could also order for a wider variety of fabrics of diverse designs. She gradually made successful forays into selling pillow-covers, bed-sheets and mattresses and she even put up a signboard advertising her wares. She is proud to offer replacement/money-back guarantee on colour and cloth to her customers. The business is now yielding enough returns for her to support her family as well as plough back funds for further expansion.

She says, “The training has given a new direction to my life. I am now working for longer hours, saving more, and curbing wasteful domestic expenditure. I was particularly happy to be able to help my widowed sister-in-law, who attended the training with me, to start a saree business. We always discuss the lessons we learnt at the training and motivate each other to save more and achieve the goals we have set for ourselves.”

pediments, costs for proper care and treatment during pregnancy and childbirth are far out of reach for the rural poor. Travel to a well-equipped hospital alone can be equal to the monthly salary of a primary income earner of a family in such an area.

A prevailing Government of Rajasthan programme offers monetary incentives to those who avail of institutional delivery services at government health facilities. However this programme appears to be sadly under utilized. Due to the lack of availability of physicians at the local community health center (CHC) and primary health center (PHC) levels, individuals who wish to utilize this scheme generally choose district hospitals for deliveries. Unfortunately, the amount received does not totally offset the cost of transportation and care in a district facility, and, once an emergency presents itself, these facilities are often too distant.

Seva Mandir's Obstetric Insurance Scheme

This year, as a pilot project, Seva Mandir launched an obstetric care insurance scheme in nine remote villages on the Gujarat-Rajasthan border. Under this programme, women can avail of care in three full-service, private maternity hospitals in Gujarat in response to any complication during pregnancy or delivery. The hospitals were chosen based on stated preferences of the women who live in the pilot area.

For a premium of Rs. 350, women have access to a dai (traditional midwife) trained by Seva Mandir on safe delivery and pre-natal care. The dai will provide basic antenatal and postnatal care including tetanus toxoid (TT) vaccinations and iron and calcium tablets. If no complications are experienced during the pregnancy and delivery, this dai will also be able to provide in-house services for a normal delivery. In the case of any complication, the dai will provide support in visiting a hospital and even accompany the woman to the institution.

In-hospital care is offered for both prenatal and delivery care, in the case of an emergency or a complication. For prenatal care, women cover their own cost of transportation to the clinic but Seva Mandir will cover the entire cost of care, including the cost of one ultrasound per pregnancy, if required. Antenatal care (ANC) visits are limited to two per pregnancy and medicines are limited to curative care. In the case of delivery care,



The majority of India's top 25 MFIs already are, or are working to become, profit-oriented NBFC-MFIs (Non-bank finance company-microfinance institutions).

Despite the growth, there is considerable unmet demand for credit in India. According to a World Bank report, only 9% of poor families in India are covered by microfinance. Of the projected credit requirement of \$10909 million, only \$1050 million is met by microfinance. Although the demand for credit is widespread, MFIs are not evenly distributed geographically. MFIs are clustered primarily in the south, with two-thirds of all microfinance clients being in AP, TN and Karnataka. Interviews with about twenty sector experts and practitioners suggests that fast growing MFIs tend to expand to areas where there is already an incumbent, similar to banks which tend to open new branches in more financially developed areas³. The reason for this strategy is to leverage training and screening of client by the incumbent MFI and general awareness of microfinance in the area. MFIs in India, by and large, do not distinguish themselves by geographic areas or by offering differentiating products to different client segments.

In general, competition is beneficial to MFIs and clients. MFIs improve their product lines to meet client demands; prices become lower; the quality of services provided improves; and overall, MFIs become more client-driven. In terms of governance, MFIs become more efficient and conscious of risk management issues. The ef-

fective interest rate charged is often made more transparent. Better governance complements commercialization of the MFIs. Banks and other private investors feel more comfortable investing in well-managed MFIs that adopt good governance practices. As a result, such MFIs enjoy continuous inflow of funds that makes further outreach of clients possible. Indian MFIs lead the way in access to commercial funds with a commercial funding ratio of about 75 per cent.

However, a review of the literature and interviews with leading practitioners reveal the negative aspects of competition. There are sector-wide concerns about unethical client and staff poaching, violation of the 'code of conduct' and reckless lending without suitable assessment of clients' repayment capacities and increase in multiple borrowings. Furthermore, recent trends in commercialization have given rise to the apprehension that social objectives of microfinance – to provide a means for poor to improve their livelihood through financial inclusion – is diluted by targeting richer clients to increase profits, the so-called "mission drift."

Multiple memberships have critical importance to MFIs and the industry as a whole because it is an issue that inevitably arises in the evolution of microfinance. It is considered to cause over-indebtedness among clients and deteriorate repayment rates. Theoretically, competition and multiple memberships, without sharing of client repayment information between the different lenders, lead to weakening of the incentive of the client to repay since if the first MFI denies further loans to the client, she has outside options now.⁴ Despite the sector's

3. Pande, R. and Burgess, R. (2005). Can rural banks reduce poverty? Evidence from the Indian social banking experiment. *American Economic Review*, 95(3), 780-795.

grave concerns about unregulated competition and multiple borrowing, however, this stance is not consistently supported by rigorous evaluations. Due to unavailability of primary data, the extent and impact of multiple borrowing has been gauged by surveys which are constrained by small sample sizes and the dependence on respondents' self-reporting.

The CMF has conducted a study on the subject to bridge this gap in the literature to an extent. The scope of the study includes a literature review of issues related to rapidly intensifying competition in the microfinance sector throughout the world. Further, we conduct interviews with leading practitioners and sector consultants on the extent of competition in India and consequences for the borrower, the lender and the industry as a whole. In addition, using a large data set on clients' borrowings from seven selected MFIs in a competitive region in India, the CMF aims to quantify the prevalence of multiple memberships across these MFIs, and compare the repayment performance of borrowers. The study consolidates the quantitative results with a qualitative report based on interviews with selected multiple borrowers.

The key finding of this study is that multiple borrowers have an equal or lower arrears rate than their single borrowing peers in the same branches and lower than the average rate for the overall sample. A majority of the multiple borrowers interviewed said they used the second loan for investment purposes and none reported repayment difficulties. Compared to the sample average, all the MFIs (except one urban MFI) have equal or better repayment rates in more competitive branch locations.

While this does not necessarily mean that competition improves repayment, it appears that MFIs by and large are managing risk well in the face of competition at this point.

Based on their repayment performance and the interviewees' unanimous desire for larger loan sizes, it appears that credit rationing is occurring. Each individual MFI is offering less credit to multiple borrowers than what they demand and are able to repay.

Our study reveals that there is no evidence that multiple borrowers are experiencing repayment problems. Therefore, the conventional notion that a credit bureau is necessary to prevent "over-dipping" was not substantiated in this study. Nonetheless, this does not eliminate the necessity of a credit bureau all together. A

credit bureau could be justified on the grounds of being able to discern between different types of clients and to view their past credit history. This could be used to target different client groups with customized products, loan sizes and interest rates.

The CMF will present this report at IFMR summer policy conference on September 21, 2007. For more information on the conference, please see the end of the newsletter.

The road to NBFC - Different models for different options: An Interview with Mr. Hemantha Kumar Pamarthy



Hemantha Kumar Pamarthy, the CEO of Hand in Hand Micro Finance Limited, is someone whose personality finds an echo in his profession. He looks upon microfinance as an important tool to curb poverty, in a sustainable way. He has spearheaded Hand in Hand's lending programmes for the less privileged with a degree of compassion, humility, and commitment that is yet to find its match in the industry.

With extensive experience in the area of finance, Pamarthy has gained considerable exposure to microfinance, micro-enterprise development, marketing and accounts. Prior to joining Hand in Hand Micro Finance Ltd., he was Chief Operating Officer at Sarvodaya Nano Finance Ltd. He has also been Associate Vice President at SREI International Finance Ltd.

and held managerial positions in Apple Credit Corporation following a decade long association with Godrej Soaps. He has written numerous articles featured in leading magazines such as Frontline and Swagat and also in reputed newspapers such as The Hindu, Deccan Herald, and Andhra Pradesh Times. Over the years he has communicated with thousands of common village folk from across India due to his extraordinary facility with Indian languages.

As the outreach and size of operations grows, each firm needs greater access to large fund inflows at affordable rates of interest. Compared to a trust or a society the standing of limited company is more robust with better corporate governance processes and compliance records.

the CMF, he talks about his views on growth of microfinance, specifically the road to a Non-Banking Finance Company (NBFC) and the different models or options of creating an NBFC to make micro-credit and microfinance a sustainable business.

Q: Hand in Hand Microfinance Limited is a registered company on its way to becoming an NBFC and you have been involved in establishing it. The CMF has been associated with you since your challenging stint at SNFL Ltd. Given your wide experience in the field, please throw some light on the key drivers that have resulted in the terrific growth that the microfinance industry in India has witnessed.

A: *My association with the CMF has given me a great insight into the microfinance sector and enhanced my knowledge in the area. Indian microfinance industry has experienced very high growth in the last 3-5 years. This is because many MFIs have relatively easy access to debt capital from banks which have to comply with strong regulations by RBI on Priority Sector Lending. As a result, there is imbalance in the debt-equity ratio and equity infusion has become necessary for business growth. This opportunity has in turn attracted the attention of both private equity players as well as social investment funds. This explains the rapid growth of microfinance in India to a large extent.*

Q: In what way does this vigorous growth related to the current trend of many societies and trusts rapidly converting to NBFCs?

A: *This spate of conversions is basically a part of scaling-up operations. As the outreach and size of operations grows, each firm needs greater access to large fund inflows at affordable rates of interest. Compared to a trust or a society the standing of a limited company is more robust with better corporate governance processes and compliance records.*

Today, many NGOs, such as societies and trusts, with microfinance programmes are contemplating buying or acquiring existing NBFCs rather than obtaining fresh licenses. This is because they wish to bypass the careful scrutiny process that RBI subjects new NBFCs to over a period of six months to a year before issuing a fresh license.

Q: What are the pros and cons of starting a new NBFC versus acquiring an old NBFC?

A: *The advantage of an NBFC is access to large*

In an interview with the MFI Strategy Unit of

4. Hoff, K. and Stiglitz, J. (1998). Money lenders and bankers: Price increasing subsidies in a monopolistically competitive market. *Journal of Development Economics*, 55(2), 485-518

Seva Mandir will bear 75 per cent of hospital costs in addition to Rs. 800 to help cover the cost of transportation.

In addition to documenting the process, this intervention can be expected to contribute to our understanding of how much emergency obstetric care can do to reduce the mortality burden in Rajasthan, and the effect insurance may have on care seeking behaviour. It is estimated that 20 percent of maternal deaths are attributable to indirect causes such as anaemia (WHO, 2005); incidence of anaemia among married women in Rajasthan is 53 per cent; among pregnant women this figure rises to 60 per cent (MoHFW, 2006).

Initial Results

Efforts to combat these complicating conditions during the pilot study have met with mixed results. Women, often under pressure from their in-laws, do indeed utilize the insurance to visit the hospital for an ANC check-up in response to a pregnancy complication, but they often fail to change their behaviour or take the medication in compliance with the doctor's recommendation. This has been found to be the case regardless of whether the nutritional supplements or medicines were paid for by the women's families or covered by insurance. In such instances, the benefits of professional prenatal care are small, and further non-finance interventions are certainly called for to reduce the incidence of pregnancy related complications caused by preventable conditions.

These initial results and observations will be taken into account in suitably modifying the insurance product before it is re-launched in the pilot area in October 2007. Initial scale-up of this product to at least eighty villages is currently slated for mid-year 2008.

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inflows of funds. But, starting a new NBFC requires resources—both financial as well as specialized manpower. The process involves developing an entirely new establishment from scratch and hence could also be time consuming.

Acquiring an existing NBFC means that initial capital requirements are minimized. Those NBFCs which were registered before 1999 needed an initial capital of Rs.25 lakhs only whereas the stipulated equity now is Rs.2 crore.

However this could also pave the way for complications right from the name of the organization to the adoption and modification of Memoranda and Articles of Association of the existing NBFC. Resolving these matters could consume a lot of time.

Moreover, the ideology mandates, and mission of the old NBFC may be different from the ideological moorings of the acquiring NGO or organization. Aligning divergent positions could be procedurally elaborate and difficult.

Q: Can individuals or associations of people come together to register an NBFC? What are the statutory compliances in this context? Can you tell us about such an instance within the sector?

A: An NBFC is essentially a registered company and as such requires a minimum number of shareholders. One individual cannot make a company. But, yes, an NBFC can be formed by a group/association of people who can pool money to raise Rs.2 crore and then get registered as an NBFC.

Q: Clearly, MFIs can come in many avatars. What are the legal forms of MFIs that are prevailing?

A: An MFI can be formed in three main ways.

One option is to form a Trust or a Society which also may be an NGO set up with non-profit objectives. The mandate of this entity is to reach out to the poor to the extent possible.

If the scale is large, the next option is to form a company under Section 25 of the Companies Act, 1956, but this option is constrained by the fact that no dividend can be paid to the investors. This limits large capital infusion into the organization, because huge investments naturally come only with huge expectations of commensurate returns. Scaling-up does pose a problem in this regard.

However, where operations are very large both

in terms of geographic spread, as well as in terms of outreach, establishing a private limited company or a public limited firm as an NBFC may be advisable. NBFCs can attract equity infusion through investments from a group of individuals and/or investment institutions. However, a private limited company which cannot have more than fifty shareholders can access only a limited amount of capital.

Q: Are equity investments possible only in NBFCs? What are the capital requirements of forming an NBFC?

A: Yes, investments can be made only in NBFCs because profit can be shared with investors only through this legal framework. Presently, to form an NBFC one should obtain a Certificate of

Incorporation (registered under Companies Act 1956) from the Registrar of Companies

(ROC). As I mentioned earlier, a minimum net owned fund (shareholder equity) of at least Rs.2 crore is stipulated. Later, business commencement permission is also required.

Q: In your experience what are the other means of raising equity for an NBFC? Are there any regulations to be followed to raise equity from the capital market?

A: If an NBFC has sound processes and systems it may also raise equity from the capital market. It can issue shares and raise equity from the public through an Initial Public Offering (IPO). However all IPOs will be subject to regulation from the Securities and Exchange Board of India.

Q: What are the other ways of raising equity such that the MFI is able to generate profits without diluting its social goal of greater financial inclusion? Can members of Self Help Groups (SHGs) become equity holders? If yes, what are the challenges?

A: Within the alternate arrangement for forming an NBFC-MFI by raising equity from the members of SHGs, the SHG members become shareholders and stakeholders of the organization. The major problem faced in this case is that the NBFC has to incur high costs in terms of both time as well as finances in order to communicate financial and/or non financial disclosures to all its shareholders. Given that the surplus after expenses in an NBFC-MFI is normally rather marginal, this is a serious challenge.

We do have such models in the country. One organization from Andhra Pradesh has success-

...the ideology mandates, and mission of the [acquired] NBFC may be different from the ideological moorings of the acquiring NGO or organization. Aligning divergent positions could be procedurally elaborate and difficult.

fully demonstrated it.

Q: Can you tell us about the MBT (Mutual Benefit Trust) model and its challenges? We have learnt that SHG members can become equity holders in the NBFC through the MBT model.

A: An MBT is a federation of several SHGs which comprise both the shareholders as well as the equity providers for the NBFC. This method results in community ownership. However, it requires unrelenting patience and time to set up such a system.

Q: What regulations must foreign individuals or institutions comply with in order to invest in NBFCs? How much time does it take to get clearance from authorities or regulators?

A: Repayment rates in the microfinance sector are usually high and hence it is very attractive to investors both domestic and foreign. As far as I know, for foreign entities to make equity investments into MFIs they need to obtain clearance from the Foreign Institution Investment Board (FIIB). This process generally takes several months.

Q: Given the influx of funds into the microfinance market today what operating model, in your opinion, should an MFI adopt in order to break even quickly, churn out profits and grow fast?

A: MFIs should first contemplate why the growth is necessary. Is it required to show the world its competence? Normally any organization registered and formed as an NBFC-MFI has a strong social cause as well as a robust business model. Such being the case, growth should come as a natural consequence rather than by design. In other words, prospects for profitability should not be the sole consideration when one decides an operating model. However, to answer your question specifically, to scale up operations the 'NBFC-MFIs way' would be better. Following either the Grameen model or SHG model or a hybrid of both, could prove successful. Between the two, the Grameen model has been observed to break even faster.

J-PAL South Asia Launch at IFMR

The Abdul Latif Jameel Poverty Action Lab (J-PAL) has launched its first field office in South Asia on July 13, 2007. Hosted by the Institute for Financial Management and

Research in Chennai, India, J-PAL South Asia at IFMR seeks to improve the effectiveness of poverty programs in South Asia by providing policy makers with clear scientific results that help shape successful policies to combat poverty.

"India was a natural choice for our first field office as it has encouraged its researchers to critically assess what is effective in reducing poverty and how to ensure that all Indians benefit from economic growth" said Professor Abhijit Banerjee, Director, J-PAL.

J-PAL serves as a focal point for development and poverty research based on randomized trials. J-PAL works with NGOs, international organizations, and others to evaluate programs and disseminate the results of high quality research. J-PAL works on issues as diverse as boosting girls' attendance at school, improving the output of farmers in sub-Saharan Africa, racial bias in employment in the US, and the role of women political leaders in India. With the CMF, J-PAL has spearheaded the use of randomized trials to evaluate the impact of various microfinance programs. Since its inception, the CMF has worked closely with J-PAL on numerous projects that involve randomized trials, such as an evaluation of Spandana's micro-credit program, an evaluation of Gram Vikas's smokeless chulhas (cooking stoves) program, and an evaluation of a program to integrate the poorest into microfinance.

IFMR Summer Policy Conference: Indian Financial Institutions – Issues and Policies

21st September, 2007. IFMR Campus

It gives us great pleasure to announce the second annual IFMR Summer Policy Conference. The conference will feature presentations on current research by IFMR staff along with panel discussions with leaders in the fields of finance and development.

The Centre for Microfinance (CMF) will be sponsoring two events as part of the conference. The first will be a presentation titled "Competition and multiple borrowing in microfinance" by CMF Research Associate Karuna Krishnaswamy. The second will be a panel debate on the subject "Is over-competition in microfinance hurting the industry?" Panelists will include Mr. Ramesh Arunachalam (Sector Consultant), Mr. S Kathiresan (CEO, KAS Microfinance), Dr. YSP Thorat (Chairman, NABARD), Vijayalakshmi Das (CEO, Friends of Women's World Banking).

For more information on the conference, please visit www.ifmr.ac.in/2007SummerPolicyConference or contact doug@ifmr.ac.in



At the inauguration of J-PAL South Asia, an MIT professor Esther Duflo (second from right), a director of J-PAL, lights a lamp (Kuthuvellaku). (From left) Prof. Chandrasekar (IFMR), Prof. Banerjee (a director of J-PAL, MIT), Dr. Rachel Glennerster (Executive Director of J-PAL), Prof. Duflo, and Mr. Narayana Murthy, founder of Infosys Ltd (the chief guest and speaker).



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