Nine reasons to keep the faith in microfinance

Microfinance companies have contributed quietly to one of India's biggest success stories. In the twelve months to June 2018, these companies have lent Rs. 52,000 crore to 26 million women borrowers, 99.8 percent of whom are repaying their loans regularly. Regulators, lenders, state-level officials though sometimes question the sustainability of this business. The AP crisis of 2010 and demonetization are cited as instances of volatility and losses that the sector went through. I believe that both these show the resilience of our business model. I have nine reasons why we should continue to have faith in microfinance.

1) **Poor:** Microfinance lends to individuals who have a yearly income of less than Rs. 100,000 in rural areas and less than Rs. 160,000 in semi-urban areas. Such persons are still considered poor (if not the poorest). Yet all of them repay their loans on time. Many borrowers who couldn't pay in November and December 2016 subsequently paid back their loans.
2) **Portfolio:** Linked to point 1 is the continuing demand for microfinance, which is seen in the sustained and rapid growth of the total portfolio of microfinance lending (including banks, SFBs, and regular NBFCs). At the end of June 2018, this was Rs. 148,000 crore, which is 31 percent more than the previous year. In the 12 months to July 2018, the monthly growth rate in lending by microfinance companies was 2.7 percent.
3) **Promoters:** Microfinance companies are relatively recent. Some started a decade ago; some in the last few years (MFIN has six new members in the last year). The promoters of these companies are professionals with extensive experience in finance. They are also passionate about empowering India's poor. This combination of business focus (in an increasingly competitive market) and social impact by the management of microfinance companies helps sustain it.
4) **People:** Both inside and outside microfinance companies, there are now committed people. MFIN's members employ 88,000 persons, up by 30 percent over the previous year. Many of these field staff have just finished high school. Yet, they are quickly trained by MFIs (microfinance institutions) and equipped with both the values and processes to go transact financial business with hundreds of women borrowers. These persons may not be the engineers who fueled the IT boom or the English-speaking graduates who grew the call center industry, but they bring their own capabilities, while working in remote areas.

   Microfinance also now has an ecosystem of people around it: rating agencies, consultants, technology providers, financer, who in the last few years have developed domain knowledge and contribute to the sector's growth.
5) **Processes:** In the last few years, MFIN members have invested in improving their processes. Their use of technology comes close to what much bigger banks do.

Many of them use tabs for their staff. They have large databases of borrowers, often geotagged. Some of them have persons doing credit modeling and data analytics. Microfinance companies have improved their customer protection. Call centers are part of a well-run grievance redressal mechanism. Even small and medium companies have training centers and curriculum for their staff.

6) **Pradesh:** Microfinance is now rapidly growing in all Indian states (barring Andhra Pradesh and Telengana, where an AP law—now being challenged in the SC—severely restricts operations). Bihar, at Rs. 5,446 crore, has the second largest portfolio of all states. Odisha comes fifth. Lending in Assam has doubled in one year. This shows that India's states, including less well-developed ones, are together making microfinance a more regionally balanced business.
7) **Policymakers:** India's top policymakers now recognize microfinance's potential for contribution to national goals. The sector's regulator, RBI, from the Governor downwards, regularly meet MFIN to discuss our concerns. So does the Department of Financial Services. Some state governments invite MFIN members to attend the State-Level Bankers' Committee meeting.
8) **Proactive:** MFIN and its members have been taking proactive steps to build the resilience of our members. We hold quarterly meetings in the twelve biggest states to discuss common issues. Recognizing that other lenders are also reaching to the same borrower, we are working with banks and SFBs to implement a Mutually Accepted Code of Conduct. Microfinance companies still collect most of their payments in cash, so before elections we reach out to the Chief Electoral Officers of states to get a special dispensation for the cash that may be temporarily lying in the 10,700 branches of MFIN members.
9) **Profits:** Finally, our sector is showing operational and financial profits. This has been recognized by hard-nosed private equity investors. Six MFIN members have raised money in the last six months. In August, one member had a successful IPO. Two or three companies are also planning to list. This shows the faith that retail and institutional investors have. Banks and other FIs lent Rs. 10,237 crore to microfinance companies in Q1 of 2018, up by 160 percent from the previous year.

These are just nine of many reasons why microfinance will continue to grow, earn, and contribute to India's progress.

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