

# Responsible Finance

## Stories of Impact

*This series provides examples of our impact, expertise, and lessons learned working with clients and partners.*



### RESULTS & IMPACT

To revive India's microfinance sector following the 2010 crisis, IFC has:

- Invested over \$90 million into high-impact commercially viable MFIs. IFC clients provide microfinance services to more than 14 million people in India and account for over 40 percent of the country's market
- Facilitated and harmonized a Code of Conduct, which has been adopted by 100 percent of MFIs in India through industry associations
- Established Indian Responsible Finance Forum – country's main platform for knowledge exchange between microfinance market participants
- Worked to promote credit reporting among Indian MFIs. By 2012, 95 million records of client data were reported to the credit bureaus – the largest database in the world
- Reached 56 MFIs representing over 90% of the market through workshops to strengthen their responsible finance practices
- Promoted SMART Campaign, which ensures compliance with core principles for fair treatment of microfinance clients. Indian MFIs Ujjivan, Cashpor, and Grameen Koota - among the first in the world - were certified by the SMART Campaign
- Worked with 8 Indian MFIs to improve their risk management and incorporating responsible finance principles into their daily operations
- Assessed over 60 financial education programs targeted at low income segments to identify appropriate financial literacy models to build client capacity in making sound financial choices

## Restoring India's Microfinance Industry

Once the world's leader, India's microfinance industry went through a severe crisis, when the state of Andhra Pradesh witnessed a mass default of microfinance borrowers in 2010. Combined with allegations of over-indebtedness and coercive recovery practices, this reflected poorly on microfinance institutions (MFIs) and the industry at large, undermining investor and consumer trust in the sector.

To address these issues, IFC is promoting consumer protection, financial institutions self-regulation, and financial education in India, putting responsible finance at the top of the agenda of the microfinance industry. IFC also invests into Indian MFIs that adopt responsible finance practices to reinforce micro-lending on a more sustainable basis.

With IFC's support, Indian microfinance industry has started to re-gain momentum after the crisis, expanding its reach to the customers at the base of the pyramid.

*“With IFC's support we are expanding significantly into areas where the need for microfinance is the highest while maintaining a quality portfolio.”*

— Govind Singh, Managing Director and CEO, Utkarsh Micro Finance Private Limited

## The Opportunity

While India has demonstrated impressive economic growth over the last decade, 30% of its population is still living below the poverty line, earning \$2 per day or less. While the microfinance sector in India has expanded significantly over the past decade, access to financial services at the base of the pyramid remains low. In addition, the majority of microfinance providers in India are concentrated in the south, while the low income states in the north and eastern parts of the country remain underserved. Furthermore, risk management, consumer protection, financial literacy, and financial infrastructure have failed to keep pace with the sector's growth.

All of the above culminated in a microfinance crisis in the state of Andhra Pradesh in 2010, which resulted in severe regulatory measures, curtailed investor appetite, and further decrease in microfinance lending across India.

## Our Approach

Working in many emerging markets, IFC took pro-active measures at the first signs of overheating in the Indian microfinance sector. A year prior to the crisis IFC started working with local credit bureaus to reduce information asymmetry between borrowers and lenders, and in parallel began tackling over-indebtedness and multiple lending issues, also promoting social performance management and responsible finance practices.

In the wake of the industry crisis of 2010, IFC consolidated these efforts under the Responsible Finance Program, focusing on the following areas:

### Partnerships

The cornerstone of the program is strategic partnerships at all levels – industry, institutional, and customer level. To unify the industry and leverage synergies among stakeholders, IFC has partnered with:

- Industry-wide networks, including the Microfinance Institutions Network (MFIN), Sa-Dhan
- Government agency and major funder of the sector and Small Industries Development Bank of India (SIDBI)
- International organizations and NGOs
- SMART Campaign, which ensures compliance with core principles for fair treatment of microfinance clients and prevents over-indebtedness. Indian MFIs Ujjivan, Cashpor, and Grameen Koota - among the first in the world - were certified by SMART Campaign
- Investors and development financial institutions

### India Responsible Finance Forum

The partnerships established by IFC helped consolidate the efforts around client protection in the industry and led to extensive exchange between stakeholders. Harnessing this process, IFC established the Responsible Finance Forum – the country's main platform for knowledge exchange between microfinance market participants - lenders, investors, donors, industry associations and experts.

Through the Responsible Finance Forum and industry associations, 100 percent of local MFIs adopted a harmonized Code of Conduct for the Indian microfinance sector. The code embeds client protection principles into institutions' operations, and defines implementation practices.

### Investments and Advice

IFC engaged directly with select local MFIs, providing advice to make them more sustainable and resilient in the long-term, and investments to scale up lending. These strategic engagements are focusing on institutions with the highest reach to low-income customers.

In terms of investments, IFC provided over \$90 million in equity to Indian MFIs, playing an important counter-cyclical role at the time when funding had dried up.

As for advice and assistance, IFC has worked with its clients on product design, process optimization, grievance mechanisms, and risk-management, applying responsible finance practices to these areas. IFC also integrated responsible finance principles into all stages of engagement with the clients, making them a part of due diligence process and portfolio review. These initiatives were implemented through IFC's Performance Based Grants Initiative (PBGI).

In addition, IFC is helping MFIs to develop new innovative microfinance products, such as micro-insurance and micro-housing lending.

For example, Bandhan, the first MFI to receive funding from IFC following the crisis, was able to turn around its lending business in less than two years. IFC advisory services also contributed to Bandhan's successful recovery, providing client protection assessment for the institution. Today, Bandhan has 4 million credit clients, 8 million insurance clients, and a portfolio of \$690 million.

*IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries.*

REGION: SOUTH ASIA | COUNTRY: INDIA | STRATEGIC PRIORITY: MICRO, SMALL, AND MEDIUM ENTERPRISES | THEME: RESPONSIBLE FINANCE, MICROFINANCE | BUSINESS LINE: ACCESS TO FINANCE

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