

India: National Microfinance Support Programme

Item	Assessment Remarks	Rating
Country & Project Name	India: National Microfinance Support Programme (NMSP)	
Loan No.	538-IN	
Project Id.	1121	
Board Date	4 May 2000	
Effectiveness Date	1 April 2002	
Original Closing Date	31 December 2009	
Final Closing Date	31 December 2009	
Total Project Cost USD(M)	USD 134 million	
IFAD loan USD (M)	USD 22.20 million (16.4% of the total cost)	
Cofinanciers (if any)	Department for International Development, UK (DFID): USD 23.5 million (17.5%); Government (SIDBI): USD 88.5 million (66.0%)	
Implementing Agency	Small Industries Development Bank of India (SIDBI) through its department Foundation for Microcredit (SFMC).	
Principal Components	The overall goal of the programme is to expand the horizontal and vertical outreach of MFIs and programmes, and to mainstream them in terms of access to resources of formal financial sector, so as to enhance the access of the poor to microfinance sector. Project objectives are: i) contribute to the development of a more formal, extensive and effective microfinance sector on a national scale that serves poor women and men; ii) assist in the evolution of an appropriate enabling environment for the development of sustainable MFIs. Project's components are: i) capacity building of the microfinance sector; ii) credit funds for microfinance programmes; iii) policy, advocacy and action-research.	
Project Performance		
Relevance	The NMSP was found relevant, given the huge unmet demand for microfinance especially among the poor and the vulnerable groups. In addition, the objectives were consistent with the country's policy for poverty alleviation through rural finance programmes. The objectives were also highly relevant to COSOP and other IFAD strategies in the country, which targeted rural poor especially rural women and supported microfinance as a means of poverty alleviation in rural areas. In addition, the programme design was aligned with the poverty-eradication activities of other major donors in India, including DFID, SDC and GTZ. By and large, the programme strategy was appropriate for achieving core objectives. The programme components were also coherent.	6
Effectiveness	To a large extent, the programme has achieved its objectives. Over the years, SFMC has contributed in developing a total number of 150 MFIs, which are servicing more than 11.2 million clients. At the end of 2009, there were 130 partners MFIs in the existing portfolio of SIDBI, out of which 73 were located in the underserved States and had an outstanding portfolio amounting to INR 5.65 bn. SIDBI has also directly supported 4 FFIs with a total outstanding portfolio of over INR 750 million. As a result of the focused multi-pronged strategy adopted by SIDBI under the programme, the sector has now reached a take-off stage where it is poised for further growth. The loan portfolio has increased from INR 0.19 billion in 2000 to INR 21.37 billion in 2009. SIDBI has provided a complete range of financial and non-financial services such as loan funds, equity and capacity building support etc. to the retailing MFIs/NGOs so as to help them in accessing funds from commercial private and public banks, as well as to facilitate their development into financially sustainable entities. In terms of capacity building, there have been some mixed results in relation to SFMC's own development. M&E was generally appropriate with an MIS system to be established to enable SFMC to track and monitor the performance of its lending portfolio.	5
Efficiency	There was no significant delay in start-up of implementation. And the programme disbursement has been keeping pace with the appraisal estimation. By 31 March 2009, the IFAD loan disbursement rate is 100%, and DFID grant disbursed 96% of total. Sufficient fund flow contributed significantly to achieving efficiency. As most of the programme activities were implemented without delay, the efficiency in time scale was achieved distinctively compared with other projects implemented in the country. The actual programme cost per beneficiary is US\$29, which is highly cost-effective compared with that of the previous Maharashtra Rural Credit Project, US\$310. As the programme is supporting medium and small MFIs to nurture the microfinance environment, the economy of scale was sacrificed in delivering micro credit. As most the MFIs engaged in NMSP are small and medium in operation scale, their operational cost are high, especially in reaching to remote areas and in underserved states. The MTR found that only one MFI had more than 100 000 borrowers, therefore it suggests a small number of efficient MFIs to reach a large number of clients for achieve cost efficiency.	6

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Project Performance		6
Partner Performance		
IFAD	NMSP was designed under the IFAD Flex Lending Mechanism (FLM) instrument based on its innovative nature in supporting microfinance mechanism nationwide. This is considered as a bold action of IFAD to facilitate the implementation of a nationwide programme. Within FLM, the programme was designed to be implemented in two phases. After the first phase, IFAD conducted an inter-phase review in 2005 to examine the progress and look into the promising achievements before entering the second phase. Therefore, the major concerns which arose in early stage could be addressed in the renovated design for the second phase. IFAD's flexibility also showed in signing loan agreement with SIDBI, rather than the Government as in usual case. This arrangement enhanced the ownership of SIDBI, and encouraged SIDBI to mobilize multiple fund resources for microfinance development. As part of IFAD's support to implementation, the loan agreement was amended in 2006 and in 2008. Since 2008, IFAD took over the responsibility of supervision from UNOPS, in line with IFAD policy on direct supervision. A flaw in programme design is that the emphasis on poverty focus was not coupled with appropriate arrangement; therefore during implementation, poverty focus was not fully integrated in the SFMC and MFI's operations.	5
Cooperating Institution	UNOPS conducted annual supervision visits from 2002 to 2007. In the supervision reports, the recommendations to the project implementation were in general relevant and practical. And it's commendable that UNOPS had been giving due attention to gender focus. In addition, UNOPS conducted a MTR in 2003, which helped the programme in renovating design in second phase. However, the poverty focus was not addressed in supervisions. A change in agreement is that the supervision was taken over by IFAD in 2008, in according to the IFAD policy change.	5
Government	SIDBI is a state-run bank, and the IFAD loan to SIDBI is guaranteed by the Government, therefore the performance of SIDBI could be considered as the main part of Government performance. The staff and fund of programme management have been generally sufficient for implementation, and SMFC works effectively in building capacity of MFIs and linking MFIs to FFIs. Also it gives due support the MFIs in underserved states. The quarterly Project Advisory Committee between SFMC and MFI management has been working well in assessing the performance and compliance of MFIs and building rapport for healthy business development. A number of MFIs have also sourced software solution to manage portfolio data, and SFMC has mediated the process of identification of software solution vendors and connecting them through workshop forums. However, SFMC didn't successful mainstream microfinance in SIDBI operations, and the impact on policy environment was not significant. Also, the poverty focus was not strictly being complied in implementation.	5
NGO/Other		NR
Cofinancier(s)	There is little information about DfiD. The PCR mentions that at 31 March 2009, the overall utilization of DfiD grant was more than 96%.	NR
Combined Partner Performance	<i>The achievements under the programme would not have been possible without the timely collaboration of SIDBI with DfiD and IFAD. The programme was implemented in close coordination amongst all the three institutions.</i>	
Rural Poverty Impact		
Household Income and Net Assets	Household income of MFI client households has increased. It is reported in the impact study conducted by SIDBI that average income of client households has increased by 68.6%, compared with the increase rate of 31.2% of non-client households. However, there are variations in increase of household income, which is depending on the poverty level of MFI clients, the number and size of loans, the support received for managing micro enterprise, and also the support of different states. With the increase in income, client households including poor households gained greater purchasing power, and their spending on housing and clothes has augmented. In addition, the impact study reported that the number of microenterprises of client hhs increased by 1.2% whilst the number of enterprises increased by 5.7% of those clients that received microcredit. Furthermore, household income increased of those hhs that reported non-agricultural activities as the main source of income.	6
Natural Resources and Environment	There is no direct impact on natural resources and the environment. However, it is estimated that the programme benefits the environment by providing alternate employment sources and reducing pressure on agricultural activity. The programme also is anticipated to institutionalize environmental concerns by helping the SIDBI to develop a formal environment policy statement and establish a separate environment department.	NR
Human, Social Capital and Empowerment	In terms of human capital, with the increase in income, client households have begun accessing health care facilities and services. Likewise, as their livelihoods improved, more children started formal education and the enrolment in local schools increased.	5

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	The clients particularly women are more willing to send children to school, and some of them can afford to move from low cost to high cost education, and move from primary to secondary school. Women in Joint Liability Group as well as SHGs were socially empowered to take collective action against gender discrimination. In addition, their participation in groups promoted by MFI gave them confidence to pursue better economic activities and improve their livelihoods. Share of women in management of enterprises was more conspicuous in the South Western region than in North and Eastern region.	
Ag. Productivity	No information available	NR
Food Security	Client households have improved their food security after participation in the programme, whereby proportion of client households with 1 or 2 meals per day declined, and households having three meals increased from 62.2% at baseline to 78.9% at 2008. Furthermore, as compared to non-client households, the proportion of client households having three meals a day was higher.	5
Agricultural Productivity and Food Security	(Food security: proportion of clients who had to cut consumption in times of shortage decreased; and in fact among non-clients, the numbers increased, as reported in the impact assessment)	5
Inst. & Policies	There has been a positive influence of the NMFSP on the overall policy environment for microfinance sector in the country. SFMC has made significant contribution to strengthening the capacity of MFI and building links between MFI and FFIs, especially in the underserved states. In addition, SIDBI rating and funds to MFI have helped most client-MFIs to access funds from commercial private and public banks. A large cross section of stakeholders like senior officials of Government of India and various State Governments, RBI, etc. have all been sensitised to a large extent on various issues like legal-framework, sustainable operations etc., in close collaboration with networks like Sa-dhan (a network of MFIs), Infos, and INAFI. Sa-dhan is also regularly being assisted for its policy advocacy role. Support has also been provided for the annual Policy Conference where all major policy issues are discussed. However there was not a significant favourable policy change achieved under the effort of SFMC, partly because the lengthy nature of advocating in achieving policy change. And SFMC did not successfully mainstream microfinance in SIDBI operation.	4
Markets	No information available	NR
Project Impact		5
Other Performance Criteria		
Innovation	The programme introduced a number of innovative features in terms of geographical coverage, choosing executing agency, and capacity building. NMSP is the first nationwide IFAD intervention in the country, where the borrower of IFAD loan is SIDBI, not the Government as in usual case, though the loan was guaranteed by Government. SIDBI was the first apex institution to support the MFI-lending route to deliver microfinance services. Also, the transformation of NGOs into MFIs is an experimental approach in poverty alleviation, which provides a new alternative of NGOs to achieve self-sufficiency through micro credit lending. A number of innovations have been made by SIDBI during the implementation of NMFSP which include the schematic innovations, like Transformation Loan Scheme, Risk Fund for SFMC's expansion in the underserved States, etc. SIDBI pioneered also the concepts of Capacity Building Needs Assessment (CBNA), Capacity Assessment Rating (CAR), Portfolio and Systems Audit. CAR has become a widely accepted route for the MFIs to showcase their performance and access funds on attractive terms. SIDBI is planning to explore possibilities of newer and innovative credit delivery channels and it would make efforts to promote new MFIs/develop a new set of intermediaries for channelizing micro credit assistance, particularly in the under-served areas.	5
Replicability and Scaling-up	The programme takes effort in promoting replication through creating favourable policy environment and mobilizing FFIs in funding MFIs. As SFMC is proved to be profitable in current programme operation, and the SIDBI identified the unmet needs of microfinance, SFMC has enhanced the support to MFIs, especially those in underserved states. In 2009, SIDBI has opened seven specialized Micro Finance Branches across the country with four of them located in the underserved States of Assam, Orissa, Uttar Pradesh, and West Bengal. The 2008 supervision suggested that SFMC take a detailed study of evolving microfinance sector looking into the future for the development of a more conducive policy framework.	6
Innovation, Replicability and Scaling-up		6
Sustainability and Ownership	In general, the sustainability of MFIs is moderately optimistic. The policy environment is favourable for the development of microfinance in poverty alleviation, and SFMC's intervention in rating, capacity building, and advanced appraisal techniques applied for MFI selection have strengthened the capacity of MFIs and have facilitated their development into financially sustainable entities. Most of the MFIs operating in the	4

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	southern States are generally self-sustaining. However, the sustainability of the new/start-up MFIs operating in the underserved States are adversely affected due to the higher operating/transaction costs. Thus, MFIs operating in the underserved States would require support for at least 4-5 years till they match the stature of the MFIs in southern states. The challenge is that SIDBI needs to find funding partners for SFMC transformation to play a wider and more inclusive role. Another challenge to sustainability is that the regulatory norms set by RBI for formal financial institutions do not synchronise much with the microfinance development. Thus there is structural limitation around which SFMC would continue to pursue the microfinance agenda for pro poor and low-income clients.	
Targeting	In project design, it was expected that 80% of the beneficiaries were poor. However, poverty focus has been a weakness of implementation. The MTR identified that only 46% rural clients of MFIs are poor. The very poor accounted for about 8% of the clients. Therefore MTR suggested SFMC to define who are the poor clients and to what extent they should be covered. However the 2008 supervision confirmed that the coverage of poor and very poor didn't improve. The lessons learned contained in the PCR point out that specific products are needed to be developed for such clientele.	4
Gender	Impact studies showed that microfinance contributed to women's empowerment. Women's share in family employment generated by MFI supported activities, showed overall improvement. Further, dominance of men in the matter of ownership asset came down both among clients and non-clients and joint ownership of asset gained importance. Women in Joint Liability Group as well as SHGs were socially empowered to take collective action against gender discrimination. Their social empowerment emerged as a result of their ownership of assets within the household, involvement in micro enterprise management, contribution of income in the household, and involvement in the decision-making within the larger family setting. A number of women have become also politically empowered. Their participation in groups promoted by MFI gave them confidence to pursue better economic activities and improve their livelihoods. Impact studies show that poor women significantly benefitted from savings across the wealth ranks and also as compared to other non-clients and their share increased from 72% to 80%. Share of women in management of enterprises was more conspicuous in the South Western region than in North and Eastern region.	5
Overall Performance		5
Estimated number of beneficiaries		
PCR Quality		
Scope	The PCR is not complying with guidelines. All annexes are missing.	3
Quality	This PCR is a very succinct document, containing only the very essential information.	4
Lessons	The lessons learned are very schematic and they are in line with the whole document. However, a more in-depth reflection would have been needed.	3
Candour	Some non-so positive issues have been omitted or just briefly mentioned. The tone is too positive.	4