Policy Paper

Scope and Limitations for Product Development and offering diversified product at scale in Microfinance

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Contents

Acronyms

BC	Business Correspondent
BF	Business Facilitator
BPL	Below Poverty Line
IGA	Income Generating Activities
IRDA	Insurance Regulatory and Development Authority
KYC	Know Your Customer
MFI	Microfinance Institutions
MFIN	Microfinance Institutions Network
MIS	Management Information System
MUDRA	Micro Units Development and Refinance Agency Ltd. (MUDRA) Bank
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NGO	Non-governmental Organization
NPA	Non-Performing Assets
PSIG	Poorest States Inclusive Growth Programme
ROI	Return on Investment
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
UID	Unique Identification Number (also called Aadhaar card number)

Glossary

Asset Liability Mismanagement:

An asset–liability mismatch occurs when the financial terms of a MFI's assets and liabilities do not correspond. The common mismatch in MFIs is maturity mismatch, where a MFI has substantial long term assets but a shortage of short-term, such as bank term loans. Maturity mismatch can be measured by duration gap.

Capital Adequacy:

The Capital Adequacy Ratio (CAR) is an important indicator of an MFI's ability to meet its obligations and absorb losses. It measures the amount of equity capital relative to risk-weighted assets that an MFI should have. RBI requires MFIs should have a minimum capital buffer of 15%, but a higher CAR is prudent owing to the more volatile and riskier environments in which MFIs operate.

Cash Flow Financing:

Short-term loan providing additional cash to cover cash shortfalls in anticipation of revenue, such as the payment(s) of receivables.

Collateral:

Asset pledged by a borrower to secure a loan, which can be repossessed in the case of default. In a microfinance context, collateral can vary from fixed assets (a motorcycle, a sewing machine) to cross-guarantees from peers.

Margin Cap:

Maximum interest chargeable by MFI equals the cost of funds of MFI plus margin cap. Currently margin cap is fixed by RBI at 10% for large MFIs; 12% for small MFIs. Both allowed 1% loan processing fee, which is addition to interest charged.

NBFC- MFI

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares, stock, bonds, insurance business, or chit business etc.All NBFCs are licensed by RBI to undertake financial business. A NBFC-MFI is defined as a non-deposit taking Non-Banking Finance Corporation (other than a company licensed under Section 25 of the Indian Companies Act, 1956) with Minimum Net Owned Funds of Rs.5 crore (for NBFC-MFIs registered in the North Eastern Region of the country, it will be Rs. 2 crore) and having not less than 85% of its net assets as "qualifying assets".

Net Operating Income:

Total financial Revenue less all expenses related to the MFI's core financial service operations, including Operating Expense, Financial Expense, and Loan Loss Provision Expense. It does not include Donations, or revenues and expenses from non-financial services.

Qualifying Assets:

As per Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) – Directions – Modifications issued by RBI on April 8, 2015, ""Qualifying assets" shall mean a loan which satisfies the following criteria:- i. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000; ii. loan amount does not exceed Rs. 60,000 in the first cycle and Rs. 1,00,000 in subsequent cycles; iii. total indebtedness of the borrower does not exceed Rs.1, 00,000; Provided that loan, if any availed towards meeting education and medical expenses shall be excluded while arriving at the total indebtedness of a borrower. iv. tenure of the loan not to be less than 24 months for loan amount in excess of Rs.15,000 with prepayment without penalty; v. loan to be extended without collateral; vi. aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs; vii. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower."

Executive Summary

With the setting up of MUDRA, and imminent issue of licenses for many small banks, microfinance institutions face new challenges to meet the unmet needs of poor households and small businesses. The clients require a diversified bouquet of products to suit their needs. However, for various reasons, MFIs still continue to offer a single standardized group product and an enterprise product. This study is intended to discover the various regulatory, organizational, technical and financial factors that hinder product refinement, development and innovation.

MFIs have considerably expanded their repertoire of offerings particularly on the liability side. The MFIs which are business correspondents to banks are offering savings, deposits, and also acting on behalf of the bank to recovery dues from bank clients. Some MFIs are piloting sale of solar items, bicycles, sewing machines and other consumer durables. Even with their core business, MFIs have moved towards financing working capital of enterprises, house construction, and loans against gold ornaments.

Though RBI guidelines and priority sector lending norms do not prevent MFIs from investing in R&D, market surveys and product development, they have not shown enthusiasm in product innovation. Lending banks and investors are happy with the status quo. There is huge unmet demand for mono credit among small borrowers. Though competition is rising in states like West Bengal, Karnataka, Tamil Nadu, there are vast geographies and population who are untouched. Hence, there is no tearing urge to go beyond the ordinary in product diversification and product development.

Two disruptive changes are likely to induce product innovation in the coming years. First, RBI has recently relaxed Income Generating Criteria (RBI Circular 8.4.2015) from 70% to 50% and raised the borrowing limit to Rs.1 lakh. This creates new space for MFIs to experiment with larger loan size and also address the needs of households and small enterprises whose requirement is closer to Rs. 1 lakh. The second disruptive change comes with the setting of Bandhan Bank, pending issuance of small bank licenses, and availability of refinancing from MUDRA Bank. These developments would heat up the battle to win the hearts and purses of small business.

The study recommends that efforts are made to

- Provide MFIs technical assistance and advisory services to fine tune marketing strategies required for commercialization of new product development.
- Now that macro-environment is conducive to microfinance, RBI should be persuaded by MFIN and Sa-Dhan, Access Development Services, SIDBI, NABARD and others to revisit the existing criteria for Qualifying Asset which bars collateral backed lending. There may be room for collateral backed lending for equipment, and other assets purchased with loans higher than Rs. 50,000.
- Product development should be based on area specific customer needs identified through market research and other studies.

- Encourage SIDBI and NABARD to earmark soft and concessionaire funds to support MFIs engaged in commercialization of new products and services that meets the needs of specific customer segment or under-served geographies. SIDBI can also develop grant/ sub-ordinate debt kind of product, based on demand from MFIs.
- Assist MUDRA to develop new products conventionally not offered by mainstream financial institutions but for which microfinance institutions may be suitable.
- To maximize delivery of new products through existing institutions or new breed of institutions. The two new full-fledged banks viz. Bandhan and IDFC, proposed small banks and payment banks will try to cater to other financial needs of the customer and also offer other products.
- Facilitate investment in new breed of special purpose MFIs which serves niche markets such as lending to meet agri-business, WATSAN, renewable energy, education and health needs of households, and small businessmen. Sammunati, Chennai which provides financial intermediation and market linkages to agro producers and Guardian, Trichy are new breed MFIs.
- Commission academic institutions to document case studies of commercially successful roll out of new products and product innovation.

To advance desired policy changes, the study recommends that

- <u>Concerned parties work in tandem with national financial inclusion agenda of Government of India</u>. An essential step is to mobilize policy makers and the broad range of stakeholders and fostering their consensus on what products should be promoted over the next 10 years. Fortunately, the Inclusive Finance India Summit, an annual event organised by Access-Assist and many colloquiums hosted by RBI's College of Agricultural Banking, Pune provides forum for open interaction and debate.
- <u>Analysis of policy options and prioritisation of action areas</u>: A national strategy should be built upon a clear evaluation and analysis of policy options specifically tailored to microfinance sector and the needs of small borrowers. These options should be based on global experience and national best practices and should be based on the fundamental consideration of the appropriate role envisaged for the State. The strategy should set forth the actions needed to resolve policy issues, establish appropriate policy frameworks, and put effective policies in place.
- <u>Build a Common Actionable Product Development Agenda</u>. Organisations such as SIDBI may consider acting upon on a feasible set of actions. SIDBI in collaboration with NABARD, MUDRA, leading MFIs, self-regulatory organisations (MFIN, Sa-Dhan, and IBA) can draw up a common list of actionable priorities. A short list of such priorities may include those which are high on national priorities such as
    - toilet construction under Swatch Bharat Abhiyan (Clean India Campaign),
    - financing of agri-value chains, and

    - financial inclusion through digital banking and electronic payment platforms.
- Foster Innovation: With the current market uncertainty and challenging economy, innovation activity should be used to support wider strategic initiatives, product development, and reaching out to underserved customers. PSIG may organize an Innovation Challenge Competition. Awards in the form of technical assistance for market survey, product design, and loan funds to serve new customers may be considered.

1.0 Background

Microfinance institutions provide a range of financial services and products to low income households, and small entrepreneurs. The clients require a diversified bouquet of products to suit their needs. However, for various reasons, MFIs still continue to offer a single standardized group product and an enterprise product along with group life insurance (Nair and Tankha 2014).

This study is intended to discover the various regulatory, organizational, technical and financial factors that hinder product refinement, development and innovation. The study identifies a number of ways on how product development process can be accelerated and scaled up. It makes few recommendations changes in regulation governing NBFC-MFIs, and what technical and capacity building support might be needed for product diversification.

2.0 Rationale and Scope

Currently the microfinance sector is spread over thirty states and has about 30 million clients, 98% of whom are women belonging to low income households. Microfinance works with underserved social segments. As clients graduate to higher standards of living, new financial and other allied needs are felt. The clients have a right to receive the products and services they need, and not be a victim of aggressive mis-selling by financial companies. The "Right to Suitability" is recommended by The RBI appointed Committee on Comprehensive Financial Services for Small Businesses and Low Income Households Report (January 2014) under the Chairmanship of Dr. Nachiket Mor[1]. The Global SMART campaign in client protection placed 'Appropriate product design and delivery' as the first client protection principle[2]. The Code of Conduct adopted by Sa-Dhan and MFIN members require that "MFIs must conduct proper due diligence as per their internal credit policy to assess the need and repayment capacity of client before making a loan and must only make loans commensurate with the client's ability to repay.[3]"

Traditionally, microfinance institutions have offered short duration term loans along with life insurance cover for the borrower and her spouse (see Annex I for description of common products offered by MFIs). Indian MFIs are not allowed to

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[1] "Right to Suitability: Each low-income household and small-business would have a legally protected right to be offered only —suitable financial services. While the customer will be required to give —informed consent she will have the right to seek legal redress if she feels that due process to establish Suitability was not followed or that there was gross negligence". Mor et al 2014, pg 173.

[2] "Appropriate product design and delivery**:** Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account." Source: The Client Protection Principles, Smart Campaign, http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles

[3] Further, "Products should not be bundled. The only exceptions to bundling may be made with respect to credit life, life insurance & live-stock insurance products. The terms of insurance … must comply with RBI & Insurance Regulatory and Development Authority (IRDA) norms. Consent of the client must be taken in all cases." Source: http://www.sa-dhan.net/Resources/Sa-Dhan%20Code%20of%20Conduct%20final.pdf

collect savings[4], hence, their main offering is credit. The loans are disbursed to individuals where the group stands as co-guarantors for repayment, and repayment collected on fixed frequency. As per RBI guidelines, MFIs can offer weekly/fortnightly/monthly frequency. Fixed repayment terms are considered important to develop credit discipline among the borrowers, the small borrowers, i.e., especially when the loans are unsecured.

However, this cookie-cutter approach to microfinance has been severely criticized by many scholars and commentators. The short comings of this narrow approach has been exclusive focus on credit, inflexibility in loan repayment schedules, absence of financial assistance to meet sudden and sharp needs during religious and community festivities, household medical emergencies, crop failures and other unforeseen shocks. Thus, it is increasingly clear that poor people need a range of "financial services" not just the traditional mono-product loan for income generating purposes.

MFIs, within the restrictions of extant regulation and business models, have attempted to diversify their offerings and meet the needs of their clients. The Microfinance India Social Performance Report 2012 highlights various loans products (apart from the standard income generating/ enterprise group loan) including Emergency loans, loans for quality of life – such as for water, sanitation, cook stoves, bicycles, mobile phones etc., individual business loans, loans for specific livelihoods such as fishery and agri, housing loans and asset loans, that MFIs are offering in spite of the regulatory limitations. Some MFIs are also offering insurance and pension products through tie-ups and savings as business correspondents of banks. However, the fact remains that majority of the NBFC-MFIs offer a limited range of loan products, and insurance products.

3.0 Research Questions

Despite the obvious case for product diversification and development, majority of microfinance institutions show greater inclination towards mono credit products. The top four microfinance companies control 42% of gross loan portfolio and 55% of clients. In FY14-15, their gross loan portfolio grew by 61% and client base by 29% compared to previous FY13-14. An examination of their portfolio as well other MFIs show that their staple offering is term credit (MFIN 2015).

This study wishes to explore the following research questions:

- What are the drivers, trade-offs and deterrents for MFIs to develop and offer diversified credit products
- Understand the process of new product development undertaken by MFI, map the role of organizational factors in the process and financial and technical support received by them from investors, technical agencies, other stakeholders

[4] In June 2014, the Reserve Bank has allowed commercial banks to appoint non-deposit taking non-banking financial companies (NBFCs) as BCs. The NBFCs which are BCs of banks are able to offer additional services such as savings.

- How is the current regulatory framework affecting product development, innovation and scaling up of beyond pilot stage
- Draw lessons from experimentation of different MFIs, including the role of institutional capacities, strategic orientation, governance, internal constraints, competition and changes in institutional culture for developing and adopting new products
- What will enable MFIs to scale up new products within the current regulatory restrictions?
- What external support MFIs will need for scaling up such as research, technology, training, and capacity enhancement?
- The impact of current change in RBI policy regarding IGA loans, on MFI's strategy of product diversification.
    - How do they seek client feedback?
    - What is the specific feedback from client which has not translated into product development on account of regulatory challenges, risks and costs of offering the products
- Finally, why was so little diversification even before 2010 RBI guidelines?

4.0 Research Methodology

The research methodology has two parts. In the first part we examine the theoretical underpinnings which govern product innovation, development and diversification. We turn to both marketing and organizational development theories to find an explanation.

The second part pertains to collection of data and insights from NBFC-MFIs to document what they currently offer, and propose to introduce in the near term. The method for data generation included:

a) Questionnaire-based survey: A carefully designed Questionnaire (attached as Annex II) was sent to over 60 MFIs, 9 of whom provided written inputs. Another specially designed questionnaire (attached as Annex III) was sent to support agencies, donors, investors, technical organizations on what kind of support they are providing to MFIs for product development. Unfortunately, not a single response was received.

b) Field visit to Uttkarsh and Cashpor offices in Varanasi, SVCL in Gurgaon, and Bandhan branch office in Tijara, Alwar district, Rajasthan was undertaken to interact with staff of these MFIs. Some microfinance clients were interviewed in Varanasi and Tijara to obtain their inputs on product development. (See Annex IV for a list of individuals met during the study.)

c) Key informants interview: 10 MFI leaders and heads of MFIN and Sa-Dhan were interviewed to obtain their personal views on the research questions listed in Section III above.

Annex V provides a brief profile of the report writer.

5.0 Findings

i) Stringent Regulation, Risk Averse Investors, and Conservative Bankers

The series of new regulations issued by RBI in the wake of Andhra Pradesh crisis in 2010, virtually defined the contours of NBFC-MFIs scope, and manner of operations. It defined the loan size, interest rate to be charged, methodologies of lending through group or individuals, repayment frequency, and application of loan amount for consumption and income generation. Further, the Priority Sector Guidelines issued by RBI from time to time signalled to the banks which economic activities and customer segments would be preferred for the purposes of direct and indirect credit disbursement. The group based lending method is well tested and proven. The strengths and weaknesses of the methodology is well known through research both within India and abroad. A majority of banks and investors are familiar, knowledgeable and comfortable with the business model of MFIs. So long as the going is good, and business grows at an astounding rate of more than 60% year-on-year, there is little reason to experiment with untested products, lending methodologies, and even investing in developing new underserved markets. The mantra is: “Don’t fix what ain’t broke.” Hence, within restrictions of current regulations and business model, scaling up on credit side is more appealing to MFIs, their bankers and investors.

Table 1 Market Share of Top Five MFIs in Gross Loan Portfolio

MFI Name	Particulars	FCY11-12	FY12-13	FY13-14	FY14-15
Bandhan	Glp (in crs)	3,730.20	4,420.90	6,107.00	9,529.60
	y-on-y change (%)		19%	38%	56%
SKS*	Glp (in crs)	1,320.00	2,015.50	2,836.80	4,171.20
	y-on-y change (%)		53%	41%	47%
Janalakshmi	Glp (in crs)	349.1	953.3	2,052.90	3,773.60
	y-on-y change (%)		173%	115%	84%
Ujjivan	Glp (in crs)	703.4	1,126.00	1,617.30	3,274.10
	y-on-y change (%)		60%	44%	102%
Equitas	Glp (in crs)	724	1,134.60	1,503.00	2,144.00
	y-on-y change (%)		57%	32%	43%
Top 5 MFI	Glp (in crs)	6826.7	9650.3	14117	22892.5
	y-on-y change (%)		41%	46%	62%
All MFIN	Glp (in crs)	16813	17407	24862	40138
	y-on-y change (%)		4%	43%	61%
Concentration		41%	55%	57%	57%

Source: http://mfinindia.org/wp-content/uploads/2015/micrometer/Micrometer%20Issue%2013_Q4%20FY%2014-15_21st%20May%202015_Public%20release.pdf

ii) Trend Towards Individual and Business Loans

Safety and risk minimization is the hallmark of Indian MFIs. Group lending methodology is fairly universal and well proven for ensuring credit discipline among small borrowers.

In the recent years, there has been flurry of interest in developing new products for individual or family run enterprises whose borrowing requirement exceeds that of group, and also do not wish to join periodic group meetings. A number of MFIs have come up with individual loans for such enterprises. To mention a few:

- **RGVN** (**North East)**: RGVN JLG Clients who have entrepreneurial skills having productive units, (men or women) are targeted. Loans are provided for income generating activity to good entrepreneurs with definite skills willing to start own enterprise/have any production unit of his/her own. Maximum loan ceiling for an individual is Rs. 50,000, interest charged is 20% per annum, tenure 2 years and repayment frequency is fortnightly.

- **Grameen Koota:** The members who have been with Grameen Koota for more than 3 years are eligible to avail this loan for any major home construction. Borrowers have to provide clear titles of their land records as security for these loans. The rate of interest charged is 22% per annum on declining balance. And loan amount ranges from Rs. 25,000/- up to Rs.2, 00,000/- under Home construction Loan depending upon the purpose. The minimum tenure is 104 weeks to Maximum of 260 weeks depending on the loan amount.

- **Grama Vidyal:** Business Loans (BL) are being provided only for established clients who have completed three cycles of General Loans during their continuous association with the program. The maximum ceiling for these loans shall not exceed Rs. 50,000. GVMFL has established high degree of screening taking into consideration the cash flow of the proposed business activity, previous repayment history of the client etc. prior to disbursement of such loans. The interest charged is 26% APR.

Box item 1: Arohan's Bazar Loan

In 2008, Arohan Financial Services, a NBFC-MFI, introduced Bazar loans for vendors in the authorized markets selling household commodities, generally perishables. The loan is given to typically males belonging to JLGs of 3-5 members. .JLGs who undergo two days of meeting prior to loan sanction. Loan size varies between Rs. 10k to Rs. 15k, payable in 12 equal instalments with interest of 27% on declining balance basis. The experience of Bazar loan emboldened Arohan to introduce two more loan products, this time for individual entrepreneurs. The Pragati loan was introduced in 2010 to cater to the needs of individual entrepreneurs involved in nonfarm enterprises (manufacturing, service units, agri-allied enterprises e.g. furniture makers or retail traders). The loan size varies from Rs. 50k to Rs. 5 lakhs, equated instalments are collected monthly over a maximum of thirty six months along with interest of 30% on declining balance basis.

Source: http://www.mftransparency.org/microfinance-pricing/india/005-Arohan/P01-Bazar_Loan/

iii) Product Development Process in MFIs

While MFIs vary in their size, operational processes, decision making style and geographical reach, a number of common elements can be discerned. Invariably, the following processes are involved in any product development:

- Research to identify needs and opportunities for a particular market segment,
- Design and pilot testing,

- Monitoring and evaluation,
- Revision and scaled-up implementation.

Before introduction, a successful product in the marketplace will go through the following eight distinct stages of new product development: idea generation, idea generation and screening, concept development, marketing strategy, business analysis, product development, test marketing, and commercialization.

i) Idea generation: usually stems from MFIs customer facing staff, analysis of loan utilization checks, or periodic employee brainstorming sessions. Additionally, a MFI may also wish to match the competition's new product offerings or where possible bring new products with the intention of differentiating and improving on existing designs.

ii) Concept development: After due screening by senior management, a single realistic idea is developed into a product concept. Concepts are then tested with peers inside the MFI to measure how appealing the product might be to consumers from the anticipated target market. Testing may range from focus groups to random surveys.

iii) Marketing strategy: After concept testing, a marketing strategy is used to define how the product will be positioned in the marketplace. The responsibility for identifying the product's anticipated target market, financial expectations, distribution channels, and pricing strategy generally falls on Operations Head and Finance Head in mid-sized MFIs.

iv) Business analysis, including sales forecasting, determines if the product will be profitable to the MFI. Many factors are considered when judging the products anticipated profitability. Finance managers will examine at the length of time it takes for the product to be profitable, cost of capital, and other financial considerations when deciding whether to proceed with development.

v) Product development: If the concept is approved, a prototype is created from the product concept. Product literature is printed and a handful of operation staff is trained on how to communicate about the product to the target clientele.

vi) Test marketing: Once a successful prototype is developed, MFIs perform test marketing on the product. Typically, a MFI will conduct formal research on a product concept to see if the proposed idea has validity with the targeted audience. Again, customer surveys and focus groups are conducted with the intention of testing the product on a sample of the targeted demographic. The testing is then analysed to measure consumer reaction to the product. Risk analysis and process mapping is completed. At this stage, MFIs generally call in external experts to advice on test marketing and piloting.

vii) Commercialisation is generally done in two stages: pilot stage and thereafter, full roll out. Once all the information is available and the MFI decides to introduce the product, piloting of the product in a limited manner begins. The costs incurred at this stage include building customer awareness, training of staff, creating a special cell of officers who will systematically introduce the product in selected branches and locations, monitor product performance, and periodically report results. Most MFIs run pilots for six months or more.

Full roll out: Post-pilot stage, a thorough review is done to check wither the product is ready for roll out. Before the roll out, it is essential that the following steps are undertaken:

- Capacity re-assessment after the pilot test e.g. organization strategy, financial viability, delivery networks and systems etc.
- Reassess top management commitment
- HR resource and project management capacity
- Infrastructure to handle the demands of new product
- Check for compliance with regulatory matters
- Modifying or developing new products is a time consuming, and risky undertaking.

Recent examples show that successful MFIs have achieved commercial roll out in partnership with financial agencies, and technical support providers. In the case of distributed products, participation of distribution company has been useful in addressing logistics issues.

Many leading MFIs have one or more professional to support product introduction, performance monitoring, and tweaking. MFI provide core products in the form of credit to their customers as well as distributed products as a BC, collect insurance premium, pension contributions, and sometime act as the sales point for mobile phones, solar products and other consumer durables. An important task of product lead persons is to select branches where distributed products should be targeted. Further, they assist training instructors to communicate appropriate instructions on product sales.

MFIs sometimes use services of resource organizations such as IFMR, EDA, Microsave, M2i and local consultants to design business processes. Summer interns from universities and business school are often assigned tasks of market research, and data processing to assist in product performance monitoring, calculation of costing, and report preparation.

For a discussion of MFI product mix strategy, please see Annex V.

Examples:

<u>Gold Loans</u>

KGFS, Muthoot Finance, SKS and many other MFIs have added a gold lending product that competes with informal sector options. To provide a better service MFIs have sought to establish systems that are quicker, cheaper, and more transparent. Unlike un-collateralized microcredit lending, gold lending is fully secure. Innovations have less to do with reducing the risk of default and are more focused on convenience to the client. World Gold Council have provided know-how to many fledgling MFIs in developing designing new product around branded gold coins, and ornaments.

Home Improvement Loans

With the help of National Housing Bank, FWWBI extended loans at 9% to its' MFI partners engaged in lending for home improvement and toilet construction. FWWBI provided extensive support to individual MFIs in capacity building of MFI staff, refine business processes, and adjust MIS to monitor on the performance of the new loans. Key field staff from MFIs were sent for exposure trips within the country and encouraged to share learning in external forums.

USAID's Technical Assistance for Energy Lending by MFIs

Under the Program for Accelerated Clean Energy – Deployment (PACE-D), USAID is collaborating with seven MFIs across India to build their capacity for building business in renewable energy. PACE-D's technical partner, Arc Finance works with MFI senior management to articulate their energy mission, lay down a coherent business plan, assess market needs, tie up with product manufacturers, and raise awareness among potential clients. The activities are currently focused on designing and implementing the mechanisms. The top priority mechanisms include: Green Bonds, Off-grid RE Fund using CSR contributions, and Off-grid Debt Fund. The program is working closely with public and private organizations including Solar Energy Corporation of India (SECI), Indian Renewable Energy Development Agency (IREDA), Chhattisgarh Renewable Energy Agency (CREDA), Tata Cleantech Capital, and The Climate Group to explore potential hosts/anchors for the proposed financing mechanisms.

iv) Enablers, Drivers and Deterrents in Product Development

There are a number of factors that influence the decisions related development of a new product in a MFI. These factors are broadly classified as organization specific internal conditions, external factors or market factors, and those related to product under development.

Research studies (Yapa 2008, Kapoor and Sinha 2013) have identified mission of organization, organizational strategy, customer orientation, organizational culture, leadership and organizational capacities and resources as important internal determinants influencing new product development process. Hadia (2009) found innovations in financial services were influenced by strategic factors, learning organizational perspective (past experience to guide future innovations), organization culture of innovation, interdepartmental coordination and communication, role of leaders and managers and strong and visible senior management support and commitment. Among Indian MFIs, Cashpor and SKRDP are often cited as examples where organizational mission and organizational core competencies play a decisive role in new product development process.

Support of board/top management is essential in ensuring adequate staff and resources allocation for new product development. MFIs with strong product champions in CEOs or in Board have greater ease in garnering external support to launch new product ideas. Equitas, Grameen Koota, Bandhan, and Ujjivan among others have strong boards and well known CEOs who have been able to garner significant resources to pilot non-financial ventures in education, solar lighting, grocery stores, and ultra-poor welfare programs.

Mbogo and Ashika (2011) have found positive correlation between organizational specific factors such as financial and human resources for MFIs and new product development in their study of Kenyan MFIs. Similarly, diversified nature of business, size of the organization, availability of free cash reserves, and current margin on business affect the decision related to new product development in Indian MFIs. Better endowed MFIs are more likely to undertake product innovation than those who are financially constrained.

In our view, conventional constructs of "innovate or perish" does not fit well to the current stage of Indian microfinance market. First, of all, there is a huge insatiate demand for microcredit which non single MFI or group of MFIs can satisfy. It is virtually a sellers' market where customers are willing to pay a premium for obtaining credit. The market for microcredit is young, vibrant, growing and vast. Large MFIs are most interested in market penetration, and find adequate business in meeting the needs of existing clients with current slew of products. Hence, there is little need to introduce new products. Secondly, competition among microfinance institutions is minimal. Only when the market has matured and reached near saturation level, we will see intense competition for retaining customers, and diversification of product offerings to suit the needs of the clients. Thirdly, the customers simply want the money –more the better – and the freedom to spend in the manner they deem fit. They are looking primarily for credit, because that what they expect MFIs to offer. They also have another major non-financial need –decent jobs for their children – which is beyond the current purview of most MFIs. Fourthly, smaller MFIs do not have the type of staff and functional specialists needed to execute activities in an efficient manner are important catalysts for a successful new product development.

So long as MFIs enjoy decent margins, and the customers are happy with higher loan amounts, there is little motivation for MFIs to diversify product offerings, or attract higher risks with new product launches. Hence, there is overall preference among MFIs to continue with what they know best – building portfolio with vanilla loans of increasing higher size and to new credit-worthy clients.

v) New Product Development is Tokenistic and Not Part of Core Business

Several MFIs have launched pilots to try out new products. Unfortunately, these experiments have not graduate to the mainstream. There may be several reasons for this outcome: a) the new products were part of public relations exercise to look good; b) financially the new products were not profitable; c) the staff either did not have the capacity or were not sufficiently incentivized to push new products; and finally d) since the vanilla loan business is so good, that scaling up new products is seen as a distraction to regular work.

Box Item 4: Cashpor and New Product Development

Cashpor Micro Credit, a section 25 non-profit microfinance company founded by Prof. David S. Gibbons, is well known for its' work among hard-to-reach poor and experimenting with new products which improves the quality of people's living standards. Cashpor is a BC to two banks through which it aims at ".offering a full range of financial service at least in its BC Savings operations, at minimum cost to an increasing number of BPL households". As an Aggregator to PFRDA, Cashpor enrolled 89,930 clients under PFRDA's Old Age Pension Savings Scheme as of March 2014.

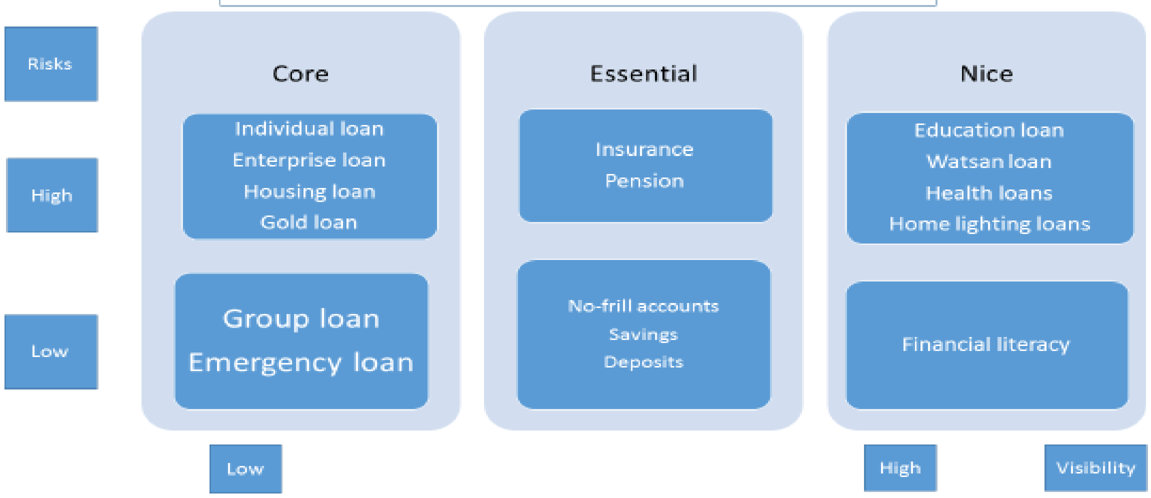
CMC offers wide range of income generating (IGL) as well as non-income generating (Non-IGL) loan products for its clients. There are three IGL loan products in the range of Rs. 2,000 (to cater to the needs of very poor) to Rs. 30,000 (available to repeat clients with good track record). There are three non-IGL products to improve WATSAN facilities, obtain solar energy products, and purchase mobile phones or meet emergency needs. The non-IGL loans are repayable in 26/52 equal instalments, and attract an interest rate of approx. 21.17%.

The non-IGL book stood at Rs. 15, 506,207 in March 2014 and Rs. 82,941,113 in March 2015. The total amount disbursed for all loans for the same period stood at Rs. 41,791,638,253 and Rs. 55, 300, 526,253. In other words, Non-IGL loans accounted for 0.04% and 0.15% of the total portfolio of Cashpor in 2014 and 2015.

Source: Cashpor Annual Report 2013-14, Monthly Project Statement Report March 2015

The core product of MFIs is group loan. Under current, RBI regulations, NBFC-MFIs are required to have 85% of their qualifying assets in group loans, and the remaining in either group or any other lending format. Annex IV summarizes the main characteristics of credit products offered by MFIs. Further, Figure 1 presents current product offerings of MFIs in a stylized manner.

Figure 1 Core and Distributed Products of MFIs



vi) New Breed of Niche Players

A new breed of special purpose institutions have emerged in the last few years to meet the needs of households looking for water and sanitation loans (see Box Item 2 on Guardian), small manufacturing units (Box item 3 Kinara Capital). While the more established top 5 microfinance companies cover a large gamut of household and enterprise needs, Guardian and Kinara Capital have chosen to serve a niche market.

Box Item 2: Guardian, Trichy, Tamil Nadu

Since 2007, Guardian, a Section 25 company, is working with low income households in Tamil Nadu to fund drinking water and sanitation solutions. It provides loans via Joint Liability Groups for installing new household water connections or toilets. Currently, the loans range from INR 5,000 (USD 100) for renovating existing toilets, to INR 10,000 (USD 200) for constructing new toilets, and often finance the entire cost of the toilet (i.e., do not require the customer to make any financial contribution upfront). The interest rate is 21% and processing fee is 1% of the loan amount. There is Rs. 100 annual charge for technical advice for a period not exceeding two years. Since 2007, Guardian has expanded from 1 to 6 districts (in Tamil Nadu), and has given out 70,842 loans for water and sanitation. The current repayment rate is 97%. Some borrowers have used the INR 10,000 (USD 200) loan to construct expensive septic tank toilets, demonstrating that financing can drive toilet purchase even by households that could have afforded one without financing.

Source: Guardian Water and Sanitation Loanshttp://guardianmfi.org/loan_products.php

Box Item 3: Kinara Capital, Bengaluru, Karnataka

Kinara Capital is NBFC that lends to micro and small businesses. Kinara Capital adopts an innovative approach towards solving the sizeable lending issues in India for the micro, small, and medium enterprises (MSMEs) that contribute to more than 20% of India's GDP. Launched in 2011, Kinara Capital has financed over 1,200 loans with a 99.9% recovery rate. The firm funds a wide range of small and medium enterprises, in both urban and rural areas, with a typical business turnover of Rs 3, 00,000-5, 00,000 per month.

Its portfolio includes companies engaged in manufacturing auto parts, electrical components, kitchen appliances, artisan products, eco-friendly products, agri-equipment, and packaging products.

Source: Kinara Capital Loans for SMEs http://www.kinaracapital.com/approach/

Box Item 4: Sammunati Agricultural Value Chain, Chennai

Sammunati Financial Intermediation & Services Pvt Ltd is being incubated by IITM's Rural Technology and Business Incubation Centre. Samunnati aims to provide rural farmers access to markets through financial intermediation, market linkages and advisory services by focusing on the key economic drivers of a district/taluk. The objective is to aid the enterprises and value chains operate at a higher level of productivity thereby creating value for all the stakeholders engaged in it. As a financial intermediary, Samuunati works with financial service providers like banks, insurance companies, and payment service providers etc., to create a complete enabling ecosystem of financial services delivery at the front end.
Source:

vii) Disruptive Changes on the Horizon: MUDRA Bank and Small Banks

The launch of Mudra Bank and Small Banks have the potential of changing the lending landscape of tiny, and small enterprises. Several MFIs were eyeing at this space to fill the vacuum with new products.

As per NSSO Survey of 2013, there are close to 57.7 million small-scale business units, mostly sole proprietorships, which undertake trading, manufacturing, retail and other small-scale activities. Compare this with the organised sector and larger companies that employ 12.5 million individuals i.e. nearly one fourth of the unorganised small business. Several agencies within the government recognise the huge untapped potential. The financial needs of this segment are largely met by informal sources.

MUDRA Bank has classified the borrowers into three segments: the starters, the mid-stage finance seekers and the next level growth seekers. To address the three segments, MUDRA Bank has launched three loan instruments:

a) *Shishu*: covers loans upto Rs 50,000.
b) *Kishor*: covers loans above Rs 50,000 and upto Rs 5 lakh.
c) *Tarun:* covers loans above Rs 5 lakh and upto Rs 10 lakh.

Initially, sector-specific schemes will be confined to “Land Transport, Community, Social & Personal Services, Food Product and Textile Product sectors”. Over a period of time, new schemes will be launched to encompass more sectors.

The modalities of functioning of MUDRA Bank are in place and it has been decided that the funding activity will be carried out by microfinance institutions. Further clarity is needed to understand the criteria MUDRA Bank eventually follows for onward lending to players in the MFI space with respect to interest rates and allocation among various players. However, the small businesses have to wait to get full information on MUDRA Bank and have a clarity on who all are eligible for loans and how to get the benefits of this scheme.

The possibility of refinancing through MUDRA Bank is a welcome opportunity for MFIs strapped of cash[5].However, since MUDRA Bank will be offering large ticket size loans, presumably at rates lower than NBFCs, it will be able to garner a major share of clients seeking Rs. 50,000 or more.

MUDRA Bank is likely to have access to low cost funds from short falls in priority sector lending; it is likely to pass on the same, leading to lower funding costs for MFIs. Given that the present funding costs of MFIs vary from 12-16 per cent with the median cost of funds being 14 per cent, NBFC-MFIs cost of funds for MFIs could come down by 1%-4% depending on the share of funding an MFI is able to receive from MUDRA bank. If the final cost to the consumer comes to 18% to 22%, then we would see a proliferation of MFIs, increased competition, and accelerated product diversification.

Another potential threat to MFI business comes from the proposed licensing of small banks. The objectives of setting up of small finance banks will be to further financial inclusion by (a) provision of savings vehicles, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations. As per the notification issued by RBI on 14 February 2015, it has received 72 applications from eligible promoters[6]. The applicants some of the leading lights of the microfinance

[5]According to credit rating agency, ICRA, NBFC-MFIs likely to have overall debt of Rs 360 billion to Rs 420 billion by March 2016, re-finance from MUDRA Bank could constitute a major portion of the overall debt of the MFIs.

[6]1. Asomi Finance Private Limited, Guwahati. 2. Au Financiers (India) Limited, Jaipur. 3. Bhartiya Samruddhi Investments and Consulting Services Ltd., New Delhi. 4. Capital Trust Limited, New Delhi.

sector such as SKS, Janalakshmi, Ujjivan, and Equitas. It is unclear how many licenses for small banks will be issued. These small banks on their own would be able to provide full range of products and services to microfinance clients, tiny and small business.

The coming of small banks and MUDRA Bank will see introduction of new products and competition for the custom of small businesses.

6.0 Policy Recommendations

Once the Bandhan Bank, IDFC Bank, small banks and MUDRA Bank starts operating, the microfinance landscape will undergo sea change. It is quite probable the bulk of the microfinance clients will gravitate towards these new generation banks. It is best therefore, to wait and watch for the next few months to see what void the new banks fill.

However, there will be plenty of room left for niche microfinance institutions and those operating in limited geographical area with extremely low cost structures.

Microfinance support institutions, donors and investors can play their constructive part.

a) Technical Assistance to MFIs

Technical assistance helps microfinance institutions work effectively. Those MFIs which have piloted a new product and wishes to scale it up could be assisted by SIDBI, NABARD and others. Such TA can take place in different ways such as:

- Support to improve internal business processes of MFI particularly related to risk management, and customer analytics could be strengthened.
- MFIs could also be provided assistance to dovetail their existing MIS to accommodate new products.
- MFIs could be given TA to fine tune marketing strategies, prepare marketing plan and take steps for commercialization of new product development.
- MFI leaders, senior managers and branch managers from priority sector departments of major banks could be sent on exposure tours where innovative products have been successfully introduced.

b) Relax Qualifying Assets Criteria

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5. Disha Microfin Private Limited, Ahmedabad. 6. Equitas Holding P Ltd., Chennai. 7. ESAF Microfinance and Investments Private Limited, Chennai. 8. Grama Vidiyal Micro Finance Limited, Tiruchirapalli. 9. IntelleCash Microfinance Network Company Private Limited, New Delhi. 10. Jagaran Microfin Private Limited, Kolkata. 11. Janalakshmi Financial Services Private Limited, Bengaluru. 12. Repco Micro Finance Ltd., Chennai. 13. RGVN (North East) Microfinance Limited, Guwahati. 14. S. E. Investments Limited, Agra. 15. Sahara Utsarga Welfare Society, 24 Parganas North. 16. Saija Finance Private Limited, New Delhi. 17. Satin Creditcare Network Limited, New Delhi. 18. SKS Microfinance Limited, Mumbai. 19. Sonata Finance Pvt. Ltd., Lucknow. 20. Suryoday Micro Finance Private Limited, Navi Mumbai. 21. Ujjivan Financial Services Private Limited, Bengaluru. 22. Utkarsh Micro Finance Private Limited, Varanasi. 23. Village Financial Services Private Limited, Kolkata

Currently, Qualifying Assets criteria requires that NBFC-MFIs only lend without collaterals for an amount not exceeding Rs. 1,00,000 provided that the total debt of the household from all sources is less than Rs. 1,60,000. The Qualifying Assets criteria should be modified to allow collateral based lending where loan ticket exceeds Rs. 50,000.

The RBI should also clarify what constitutes “income generation”.

The RBI has excluded education and medical expenses while arriving at the total indebtedness of a borrower. It is suggested loans for education, medical expenses, water and sanitation are excluded for the purposes of arriving at the total indebtedness of a borrower and are loans under these heads are treated as “income generation” for the purposes of meeting Qualifying Assets criteria.

A related requirement is 85% of the Qualifying Assets be without any collateral. So long as the prevalent practice was group lending, the group acted as the guarantor against bad loans. When the whole microfinance sector is moving towards individual loans, and quantum of loan is becoming bigger, group guarantee might not suffice.

Changes in Qualifying Assets criteria would encourage MFIs to introduce a slew of collateral based loans. However, small borrowers do not have physical collaterals to offer. This may encourage preference of large ticket lending to the exclusion of small borrowers.

More generally, now that macro-environment is conducive to microfinance, RBI should be persuaded by MFIN and Sa-Dhan, Access Development Services, SIDBI, NABARD and others to revisit the existing regulations which is stifling product innovation by MFI.

c) Earmarked funds:

Clearly no business can grow fast without the right funding, and so capital is another key growth driver. Finding the right form of financial backing, and at the right time, is critical. That’s not to say that high growth can only be achieved with large amounts of funding, or that high funding levels will automatically result in fast growth. The medium and small MFIs are willing to experiment with new products provided sufficient loan funds are made available through banking channel.

SIDBI and NABARD may be encouraged to earmark soft and concessionaire funds to support MFIs engaged in commercialization of new products and services that meets the needs of specific customer segment or under-served geographies.

A loan fund of INR 1000 million exclusively WATSAN purposes by the Central Government would be welcome.

d) MUDRA Bank:

- Assist MUDRA to develop new products for conventionally not offered by mainstream financial institutions but for which microfinance institutions may be suitable such as WATSAN loans.
- Engage in high level discussion with MFI leaders on they can assist MUDRA to develop sector specific schemes related to “Land Transport, Community, Social & Personal Services, Food Product and Textile Product sectors”.

- An important source of income for small MFIs is fees income earned from securitization of good quality portfolio. MUDRA Bank could securitize and pay higher fees to a select range of new products which it wishes to champion. Securitization is a way of risk sharing between Banks and MFIs.

e) Investors:

- Microfinance is having a dream run in terms of year-on-year growth, return on investment, and capital infusion. However, good times are not permanent, good companies are. Focusing on what can be done today to create value in the future and adjust the MFIs operational and financial course is matter of fundamental importance. With imminent competition on the horizon, product diversification, and new positioning would emerge as key business drivers in future. The investors need to engage top management in investee firms on addressing two key questions: *Which factors and products will have most significant impact on the value of the business? Which of those factors and products should be addressed today?*

- Some investors are looking to invest in adjacencies that serve client similar to microfinance. Efforts to incubate and invest in new breed of special purpose MFIs which serves niche markets such as lending to meet agri-business, WATSAN, renewable energy, education and health needs of households, and small businessmen are welcome.

Knowledge Dissemination:

Commissioning academic institutions to document case studies of commercially successful roll out of new products and product innovation.

Box 4: Recommendations by MFIs

As per the response received from the 9 MFIs[7], the critical challenges faced by MFIs in product development were

- Lack of sophisticated statistical tools for assessing product risks and matching them clients need and ability to pay
- Skilling of staff in product development process and marketing
- Retooling MIS to track and capture transactions
- Lack of funding for new product line such as sanitation, solar home lighting etc.
- Insufficient secondary data about the target segment.
- Market research is expensive exercise, more secondary level research should be made available for free access. Market research could be supported by PSIG or SIDBI.

Support needed from donors and external agencies:

- Underwriting the cost of market research studies
- Development of credit score and other algorithms for risk assessment and decision making
- Assistance with consumer awareness raising, marketing and brand building of MFIs
- Grants to develop institution-specific technology solutions, particularly new MIS hardware and software which will be needed to effectively monitor and evaluate new product experience.
- Organization of exposure tours, and training and handholding by top notch experts

[7]The respondents were Agora, Arohan Financial Services, ESAF, Fusion Microfinance, Margdarshak, PAHAL Financial Services, SKS, Suryoday Microfinance, and Ujjivan.

New products of interest to MFIs are:

- Loan against property for big borrowers.
- Financial Literacy Centers to educate customers on new products
- Scaling Up Loan @ Call. This will require very effective means to check background of clients, and dispense emergency loans.
- Microenterprise loans for enterprises tiny and small enterprises.
- Individual loans for consumption purposes

Policy changes suggested:

- Make available cheaper and concessional credit to support new product development and commercialization
- Review income definition for targeting,
- Remove loan tenure cap for better asset-liability management and new product development
- Allow use of electronic wallet for inter-member transactions and transaction with NBFC-MFI

7.0 Strategy for Achieving Policy Changes

a) Work in Tandem With National Financial Inclusion Agenda: Product development to meet the needs of low income households should be part of national financial inclusion agenda. There needs to engage both the political and technical levels of ministries of finance, line ministries, RBI, SIDBI and NABARD. As such, the process recognizes more than a technical perspective; it accepts that the national policy agenda must often first be established and then modified when appropriate. Policy change in India is an extremely time consuming tedious process. There multiple stakeholders are involved; policy change is most likely to occur where there is a critical mass of institutions and interest with same concerns that are willing sustain concerted action. An essential step is to mobilize policy makers and the broad range of stakeholders and fostering their consensus on what products should be promoted over the next 10 years. Fortunately, the Inclusive Finance India Summit, an annual event organised by Access-Assist and many colloquiums hosted by RBI's College of Agricultural Banking, Pune provides forum for open interaction and debate.

b) Analysis of policy options and prioritisation of action areas: National strategy should be built upon a clear evaluation and analysis of policy options specifically tailored to microfinance sector and the needs of small borrowers. These options should be based on global experience and national best practices and should be based on the fundamental consideration of the appropriate role envisaged for the State. The strategy should set forth the actions needed to resolve policy issues, establish appropriate policy frameworks, and put effective policies in place.

c) Build a Common Actionable Product Development Agenda: Not all actions need to wait till a national shared vision on what a competitive, diversified and inclusive microfinance sector would be like in the 10 years and beyond. Organisations such as SIDBI may consider acting upon on a feasible set of actions. SIDBI in collaboration with NABARD, MUDRA, leading MFIs, self-regulatory organisations (MFIN, Sa-Dhan, and IBA) can draw up a common list of actionable priorities. A short list of such priorities may include those which are high on national priorities such as

- toilet construction under Swatch Bharat Abhiyan (Clean India Campaign),
- financing of agri-value chains, and
- financial inclusion through digital banking and electronic payment platforms.

d) Foster Innovation: With the current market uncertainty and challenging economy, innovation activity should be used to support wider strategic initiatives, product development, and reaching out to underserved customers. PSIG may organize an Innovation Challenge Competition. Awards in the form of technical assistance for market survey, product design, and loan funds to serve new customers may be considered.

8.0 Conclusion

For the next 12-18 months, product development is unlikely to be a priority for large MFIs. Those with small portfolio may be interested to experiment provided additional debt and concessional funds are available for experimentation. However, since the commercial potential of new product development is uncertain, MFIs will require considerable cajoling to motivate themselves into development of new markets. However, both large and small MFIs are more likely to collaborate if the thrust is for deepening penetration in existing markets with existing products.

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Annex I: Typical Loan and Insurance Products of NBFC-MFIs

MFIs offer small credit facility for income generation activities to its target customer base who are unable to avail credit facilities on account of lack of collateral from the existing banking structure. The products are designed for simplicity so that customers find it easy to comprehend and utilize. The loans range from Rs. 7000 to Rs. 30,000 under joint liability group (JLG) and Rs. 50,000 to Rs. 150,000 for individuals seeking loans for housing or working capital. Every borrower has to buy life insurance cover for herself and spouse for a sum at least equal to the loan amount. The MFI acts as the agent of insurance companies duly licensed by IRDA.As per RBI Know Your Customer (KYC) norms, identity, age and address proofs are required for loan processing.

#	Features	Product Details				
1	**Product Name**	**Income generation Basic**	**Income generation/ Intermediate**	**Consumption Emergency/Utility items**	**Working Capital for Business/ Housing Individual**	**Gold Loan**
2	Mode of loan	Group	Group	Group	Individual	Individual
3	Loan Amount Rs.	7k – 15K	7k – 30K	3k – 7K	25k – 150K	60% of loan to gold value
4	Loan Tenure in weeks	46 -50	104	26	52-156	52
5	Repayment Option	Weekly / Fortnightly /Monthly			Fortnightly / Monthly	
6	Rate of Interest	23.5% - 26%				18.5% to 25%
7	Loan Processing Fee	1% of Loan Amount + Service Tax as applicable				
8	Grace Period	2 Weeks				
9	Security Deposit	Nil				
10	Foreclosure Charges	Nil				
11	Penalty for delay in Repayment	Nil				
12	Insurance Premium	As per Insurance Provider				
13	Insurance Tenure	1 - 3 Years				NA
14	Insurance Coverage	Client and Spouse				NA

Annex II: Questionnaire for MFIs on Credit Product Development

Microfinance institutions provide a range of financial services and products to low income households, and small entrepreneurs. The clients require a diversified bouquet of products to suit their needs. However, for various reasons, MFIs still continue to offer a single standardized group product and an enterprise product. The Microfinance India Social Performance Report 2012 highlights various loans products (apart from standard income generating/enterprise group loan) including Emergency loans, loans form quality of life –such as for water, sanitation, cook stoves, bicycles, mobile phones etc., individual business loans, loans for specific livelihoods such as fishery and agriculture, housing loans, and asset loans, that MFIs are offering in spite of various regulatory restrictions.

This survey is intended to discover the various regulatory, organizational, technical and financial factors that hinder product refinement, development and innovation. More importantly, we seek your suggestions on how product development process can be accelerated and scaled up. We would like to have your suggestions on changes in regulation, and what support you need for product diversification such as research, technology, training, and capacity enhancement

The policy paper will form an important base document for supportive policy advocacy for MFIs. The paper will be sent to various concerned stakeholders including Department of Financial Services, RBI Financial Inclusion departments of banks, MFIs, NABARD, SIDBI, technical agencies, and sector experts. The research is being undertaken by ACCESS-ASSIST with support from UK Government's Department for International Development (DFID) and SIDBI.

Completed questionnaire may be sent before May 1, 2015. For any queries, please feel free to contact Manab Chakraborty (+91-9560107700, manabc@gmail.com).

1. Name of the organization
2. Organization's website
3. Respondent's name and designation
4. Respondent's mobile number
5. Respondents' email
6. Total number of active borrowers in March 2015
7. Gross loan Portfolio in March 2015 (in Rs)
8. New products developed in the last 3 years

Sl. No.	Year of introduction	Name of the product	Target Group	Interest charged APR	Number of Clients of this product in March 2015	Size of Portfolio of this product in March 2015
Product 1						
Product 2						
Product 3						
Product 4						

9. What were the major challenges faced while introducing or scaling up the new products?
10. Please describe any new product you are planning to introduce in the FY 2015-16.
11. What external support you need to scale up new products?
12. What are your recommendations for policy change that would ease new credit product innovation, development and introduction?

Annex III: Questionnaire for Organizations Supporting MFIs on Product Development

Microfinance institutions provide a range of financial services and products to low income households, and small entrepreneurs. The clients require a diversified bouquet of products to suit their needs. However, for various reasons, MFIs still continue to offer a single standardized group product and an enterprise product. The Microfinance India Social Performance Report 2012 highlights various loans products (apart from standard income generating/enterprise group loan) including Emergency loans, loans form quality of life –such as for water, sanitation, cook stoves, bicycles, mobile phones etc., individual business loans, loans for specific livelihoods such as fishery and agriculture, housing loans, and asset loans, that MFIs are offering in spite of various regulatory restrictions.

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Completed questionnaire may be sent before May 1, 2015. For any queries, please feel free to contact Manab Chakraborty (+91-9560107700, manabc@gmail.com).

1. Name of the organization
2. Organization's website
3. Your name and designation
4. Your mobile number
5. Your email
6. What kind of support services your organization has provided/can provide to MFIs for product development?
7. Technical Assistance
    - Transfer of know-how
    - Market survey
    - MIS changes
    - Any other
8. Financial Assistance
    - Beef up human resources capacity
    - Hire external domain experts
    - Absorb higher risks from product experimentation
    - Margin money to avail term loans and working capital from banks
    - Any other
9. According to you what are the major challenges faced by MFIs in scaling up new products?
    - Very few successful pilots
    - Management inertia
    - Lack of organizational capacity
    - Any other
10. According to you, what are the major regulatory constraints faced by MFIs in new credit product development?
11. According to you, how can new product development be accelerated in Indian MFIs?
12. What are your recommendations for policy change that would ease new credit product innovation, development and introduction?

Annex IV: Persons Interviewed For the Study

16.4.2015	Tanya Dargan, Consultant, PATH International
23.4.2015	Ashis Kumar Sahu, CEO, Clean Energy Access Network
24.4.2015	Ronnie Khanna and Aalok Aawalikar, NEXANT-USAID PACE-D Program
27.4.2015	Jatin Seth, Product Development Officer, SVCL
29.4.2015	Dr. B.B. Singh, CFO, Rajesh Mishra, Head Operations, Ravi Prakash, Finance Officer; Sanjay Srivastav, HRD and Training; Neeraj Kumar Singh, Branch Head, Cashpor, Varanasi
29.4.2015	Govind Singh, CEO, Rahul Dey, Head Micro Enterprise Loan and IT; Indra Deo Pandey, AVP Responsible Finance; Arvind Kumar, Head Product and Strategy; Pankaj Kr. Singh, Head Internal Audit; Sandeep Kumar Mahajan, Internal Auditor, Utkarsh Microfinance, Varanasi
2.5.2015	S.G. Anil Kumar, CEO, Samunnati,Chennai
3.5.2015	R. Thirunavakarrasu, COO, Kinara Capital, Bangalore
4.5.2015	P. Satish, CEO, and Somesh Dayal, Director, Sa-Dhan, Delhi
4.5.2015	Manas Bid, Dia Vikas, Gurgaon
5.5.2015	Saurabh Baroi, Dia Vikas, Gurgaon
	Jatin Seth, Product Development Officer, SVCL
14.5.2015	Krishnaswamy Karunakaran, M&E; and Amit Arora, Advisor, Rural Financial Inclusion Programme (RFIP), GIZ, Delhi
21.5.2015	Alok Prasad, CEO, MFIN, Delhi
22.5.2015	Sangeeta Naik, Coordinator, Farmer Producers Company, Bandhavgarh, Madhya Pradesh
23.5.2015	Prasanta Biswas, Branch Head, Bandhan, Tijara, Alwar District, Rajasthan
24.5.2015	P. Murali Srinivas, CEO, Habitat for Humanity, Delhi

Annex V: Profile of the Author: Manab Chakraborty

Over the last 25 years, Manab has variously worked as a NGO manager, UN civil servant, consultant, and social entrepreneur. Manab currently works as an independent consultant to social enterprises and development finance institutions. He has worked for many international organizations such as UNDP, UNEP, World Bank, IFAD, ADB, EU, SIDA, USAID, DFID, GIZ, and PLAN. His expertise is in microfinance, microenterprise development, natural resource management, renewable energy lending, agricultural value chain, institutional development, local staff capacity building and social impact assessment, and finding market-based solutions for the poor. In his pursuit of building customer centric institutions, he blends private sector and non-profit approaches to problem solving. Manab has managed a broad range of projects related to microfinance, social performance management, market research, product design, designing training toolkits, feasibility and project appraisal work, among others. Manab is a strong manager experienced working in multi-cultural environment, leading diverse teams, overseeing donor coordination and reporting, and managing large-scale projects.

He founded M/s Mimoza Enterprise Finance Pvt. Limited, a microfinance company in 2007, from which he exited in 2012. At the time of his exit, the company had a portfolio of USD 12 million and client base of 90,000 women borrowers.

Manab has postgraduate degrees in business management from Kellogg School of Business and HKUST, environmental economics, from the University College London, and agriculture and rural development from the Institute of Social Studies, Holland.

Annex V: MFI Product Mix Strategy

The four dimensions to a MFI's product mix include width, length, depth and consistency.

Width

The width of a company's product mix pertains to the number of product lines that a MFI sells. For example, if a MFI has two product lines namely credit and insurance, its product mix width is two. Small MFIs have generally two products. Once they have perfected their basic offering, and got a foot hold in the market, new products are introduced. Large MFIs have around five to six products.

Length

Product mix length pertains to the number of total products or items in a MFI's product mix. For instance, Janalakshmi has eight products: 6 credit products (all sold under JFS brand name), one insurance product with LIC, and one savings products in collaboration with India Post. There are three product lines, and three brands. Thus, JFC's product mix length would be nine.

Depth

Depth of a product mix pertains to the total number of variations for each product. Variations can include size, interest rate, repayment frequency, and any other distinguishing characteristic. For example, if a MFI offers credit in three sizes and two levels of interest rate, that particular brand of credit has a depth of six

Consistency

Product mix consistency pertains to how closely related product lines are to one another--in terms of use, origin, and distribution. A MFI's product mix may be consistent in distribution but vastly different in use. For example, a MFI may offer credit from its' own resources, and sell solar lanterns of another company. However, the first product is financial in nature and the other is not. The production consistency of these products would vary as well. A financial company dabbling in many non-financial products, risks of straying from its' core competency.

Professionally managed small MFIs usually start out with a product mix limited in width, depth and length; and have a high level of consistency. However, over time, the MFI may wish to differentiate products or acquire new ones to enter new markets. A MFI can also sell the existing products to new markets by coming up with new uses for their product.