

OPPORTUNITY'S MICROFINANCE IMPACT IN INDIA: *Growth, Innovation, and Client Impact*

SUMMARY

In India, Opportunity and its subsidiary Dia Vikas Capital partner with Indian microfinance institutions to provide opportunities that lift millions of poor people out of poverty and transform lives. As of 2015 year-end, Dia Vikas and its 12 partners delivered microfinance to over 2.53 million active clients – an exponential increase from the 1.4 million clients served in 2012. With funding from the Caterpillar Foundation, Opportunity conducted a multi-tiered appreciative impact assessment to more deeply document partner growth, innovations, and client impact across a range of our Indian partners, with a focus on 2012-2015, when the Caterpillar Foundation partnered with Opportunity to “move the needle” on poverty in India through the expansion of microfinance. The research documented Dia Vikas’ significant contribution to these areas, as follows:

- **Partner Growth:** Opportunity’s investment in India was instrumental in the growth and sustainability of microfinance institutions serving marginalized populations in poverty-stricken and under-served regions of India. Success factors in the growth of these institutions include our mutual, well-aligned goals of business expansion and social impact as a result of leveraging global good practice, investing in systems and capacity building, and institutionalizing client responsiveness.
- **Innovations:** Opportunity supported partner innovations to leverage microfinance for broader community development goals – for example, improved health and sanitation and green energy.
- **Client Impact:** Reliable client impact assessment with three partners revealed significant improvements in client lives as a result of their access to microfinance and complementary services, although changes in poverty level were not (yet) apparent.

Methodology

This summary synthesizes key findings from a multi-tiered appreciative impact assessment, conducted in 2015 in partnership with two high caliber research organizations, Indian Market Research Bureau (IMRB) and MicroSave. The research deeply documented Dia Vikas’ contribution to:

- **Partner growth and innovations:** 3 partner case studies (Cashpor, ESAF and Annapurna), and case studies of innovations in health and sanitation.
- **Client impact:** an impact assessment of clients engaged with 3 partner MFIs. (ESAF, RGVN and Samhita). For the client impact assessment, researchers interviewed 450 clients and 225 non-clients in the same communities to generate rigorous, quantitative impact findings, informed by focus group discussions and staff interviews.

Opportunity has made public several reports and summaries emerging from this in-depth research:

- **Partner Case Studies** - Full Reports for Cashpor, ESAF, and Annapurna (<https://oi.box.com/v/dia-vikas-partner-case-studies>)
- **Impact Assessment Summaries** for ESAF, RGVN and Samhita (<https://oi.box.com/v/Dia-Vikas-impact-summaries>)

The research was complemented by video production that has so far produced five videos.
(<https://oi.box.com/v/India-videos>)



The Dia Vikas partnership strategy exemplifies how minority equity investments, coupled with high-caliber technical assistance, can leverage additional capital and expertise to significantly increase scale for transformational microfinance.

KEY FINDINGS

Opportunity partners demonstrate strong poverty outreach:

- 100% of clients are women; between 5% and 50% report not making any household financial decisions independently.
- The majority of clients belong to caste, ethnic, or religious groups that are historically discriminated against and live in under-developed, under-served regions, including the Northeast.
- The majority (80 - 85%) live in poverty (under \$2.50/day level).
- Approximately one quarter (24 - 28%) live in extreme poverty (under \$1.25/day level).

Opportunity was instrumental to MFI financial sustainability and quality client service:

- Opportunity – through Dia Vikas capital – provided significant, long-term capital, taking an ownership stake of 22 - 30% in partner MFIs.
- The number of active clients increased by 13 - 67%.
- Portfolio size increased between 124% and 154% (in USD).
- Operational self-sufficiency ranges from 106 - 143%.
- Portfolio at risk is almost zero – clients are rarely late with loan payments.
- Client retention ranges between 75% and 90%.

Client well-being improved as a result of their access to microfinance:

- Almost all clients used the loans to invest in businesses or farms, between 88% and 97%.
- The vast majority of clients (83% - 89%) report that their income increased **as a result** of their loan.
- Clients report significant improvements in well-being: 86%-98% report being better off, compared to 46%-80% of non-clients. 60-69% report being better off by two or more steps on a ten-step scale, compared to only 20%-42% of non-clients.
- Client incomes increased significantly in two partners: RGVN, average client income increased by 66%, compared to 40% for non-clients, and Samhita, average client income increased by 58%, compared to 37% for non-clients.

Long-term and secondary impacts, including reduction in the poverty rate and women's empowerment, were not evident during this timeframe and/or using these tools.



1 CONTEXT AND PROGRAM

India has one of the highest global poverty rates with 51% of the population – 708 million people – living in poverty (World Bank, 2011). Although access to vital services is improving – for example school enrolment has reached over 90% – large portions of the population remain underserved. Only 25% of the population has access to clean water in their homes, nearly half of the population defecates in the open, and 48% of children suffer from malnutrition. (UNICEF, 2016). Dia Vikas targets the poorest regions of India. For example, RGVN and Cashpor operate in the Northeast and Samhita focuses on the remote regions of Madhya Pradesh (Central India). These regions are home to large concentrations of historically discriminated against populations (people born into lower castes, so-called “tribal” people, and Muslims). These states are also categorized by the Government of India as underdeveloped due to poor infrastructure; inadequate availability of key education, health, and economic services; and, in some locations, the prevalence of conflict. In the midst of this deep poverty, dedicated, skilled, and insightful Indian leaders have devised sustainable, large scale solutions, including microfinance.

The microfinance sector in India has grown to the extent of experiencing – and weathering – significant growth challenges. In 2010, a significant MFI crisis erupted around the over-indebtedness of microfinance clients. As a result, investment capital dried up, a situation exacerbated by the global financial crisis. In the face of this storm, Opportunity invested in rural MFIs serving some of the most economically and socially challenging locations in India. Originally focused on growth, Opportunity responded to the MFI crisis by also investing in social performance management and supporting broader community development solutions being tested by socially-driven Indian MFIs.

In India, Opportunity implements through a subsidiary, Dia Vikas Capital. Under the Caterpillar Foundation initiative to “Move the Needle on Poverty,” Dia Vikas invested equity, debt financing, technical support, and/or social performance management guidance in multiple MFI partners between 2012 and 2015. (This research highlights work with five of these MFI partners.) To advance community development, Dia Vikas also supported innovations in sustainable community health, sanitation, and green energy.

2 KEY FINDINGS – PARTNER GROWTH

Opportunity was instrumental to partner growth and social mission:

Dia Vikas partners report that their partnership with Dia Vikas was essential not only to the growth and sustainability of their microfinance portfolio, but also to their social mission. At a time when there was a dearth of capital for MFIs in India, and a high risk-aversion, Dia Vikas invested significant, long-term capital in partner MFIs, taking an ownership stake of 22% - 30%. This affordable capital provided a secure platform for portfolio expansion and cost recovery. In addition, Dia Vikas provided confidence to other investors, thus leveraging Dia Vikas capital. Dia Vikas also provided technical assistance on a range of demand-driven topics, including operating systems, institutional structure, human resources, and risk management – among others. This combination of significant capital at a crucial time with responsive, high-caliber technical assistance contributed to partners’ microfinance portfolio growth and financial viability.

Dia Vikas also provided partners with scope and capacity to realize their social mission in two ways. First, Dia Vikas built partner capacity to implement social performance management systems. These systems help partners monitor client satisfaction and protection, assess poverty



outreach, and take the pulse of client status in key areas like food security and access to healthcare and education. The implementation of client protection protocols was vital to reestablishing confidence in the MFI sector at the time. Second, Dia Vikas supported its partners' vision to leverage financial services and the MFI platform for broader community development. Partners developed loan products for green energy, the construction of appropriate toilets, and the purchase of dairy cows (used for income and to provide the family with a more nutritious diet). Dia Vikas also partnered with Healing Fields Foundation and MFIs to launch community health education. Together, they innovated a potentially sustainable model in which community health educators earn income from health and sanitation-related business lines like promotion of toilet construction and fuel efficient stoves, or sale of water filters and sanitary pads. While these social initiatives also have potential business benefits, Dia Vikas is one of the first and few investors to place such a significant focus on social objectives.

MFIs partners grew significantly, while improving financial sustainability and quality client service:

- The number of active clients increased by 13% - 67%.
- Portfolio size increased between 124% and 154% (in USD).
- Operational self-sufficiency ranges from 106% - 143% (as of 2016).
- Portfolio at risk is almost zero – clients are rarely late with loan payments.
- Client retention ranges from 75% and 90%.

3 KEY FINDINGS – CLIENT IMPACT

Strong poverty outreach:

- 100% of clients are women; between 5% and 50% report not making any household financial decisions independently.
- The majority of clients belong to cast, ethnic or religious groups that are historically discriminated against, and live in under-developed, under-served regions of India.
- The majority (80% - 85%) live in poverty (under \$2.50/day level).
- Approximately one quarter (24% - 28%) live in extreme poverty (under \$1.25/day level).

Client well-being improved as a result of access to microfinance:

Almost all clients used their loans to invest in businesses or farms, between 88% and 97%. The vast majority of clients (83% - 89%) report that their income increased as a result of their loan.

- Clients report significant improvements in well-being: 86%-98% report being better off, compared to 46%-80% of non-clients. 60-69% report being better off by two or more steps on a ten-step scale, compared to only 20%-42% of non-clients.
- In one partner, RGVN, average client incomes increased 62% more than average client incomes for comparable non-clients (66% for client, and 40% for non-clients), but this was not the finding in all partners.

Results of Innovation Initiatives:

To date, several innovation initiatives have reached the stage of “proven demonstration” and are ready or on the road to significant scale-up. These include:

- Water and Sanitation Loans: Cashpor loaned \$858,000 to 15,313 clients in 2015.
- Green Energy: In 2013-2014, ESAF issued some 60,000 loans for fuel efficient stoves and solar lighting.
- Pension savings accounts: Cashpor facilitated \$496,000 in savings for 180,000 clients.

The scale of community health education has been significant, but challenges remain with the key innovation of sustainable income streams for educators.



Long-term and secondary impacts, including reduction in the poverty rate and women's empowerment, were not evident during this timeframe and/or using these tools.

4 CRITICAL SUCCESS FACTORS

The partners profiled here offer the following common success factors in their growth, sustainability and journey to achieving broader community development goals:

- **Learning:** Being a learning organization, gathering and applying best practices from other banks and institutions in the microfinance industry, investing in capacity building.
- **Systematic Client Consultation:** Institutionalizing client engagement, not only gathering client feedback through survey and focus discussions, but more deeply establishing elected client committees to guide the organization at multiple levels of the hierarchy up to and including the board level.
- **Frequent and Long-term Clients Engagement:** Establishing a pattern of frequent and regular meetings to become a core part of clients' lives – developing long-term relationships with clients, seeing them through ups and downs along their journey out of poverty, helping mature clients grow into leaders, and developing a strong and sustainable community presence for the MFI.
- **Leveraging Finance for Sustainable Community Development:** Striving to address the need for services beyond finance by devising potentially sustainable solutions that build on the organizations' strong capacity for microfinance. Developing loan products for alternative energy, sustainable community health education models, and viable micro-insurance.

All partners also highlight a critical success factor of their partnership with Dia Vikas: aligned mission around sustainable solutions to reach both financial and social goals.

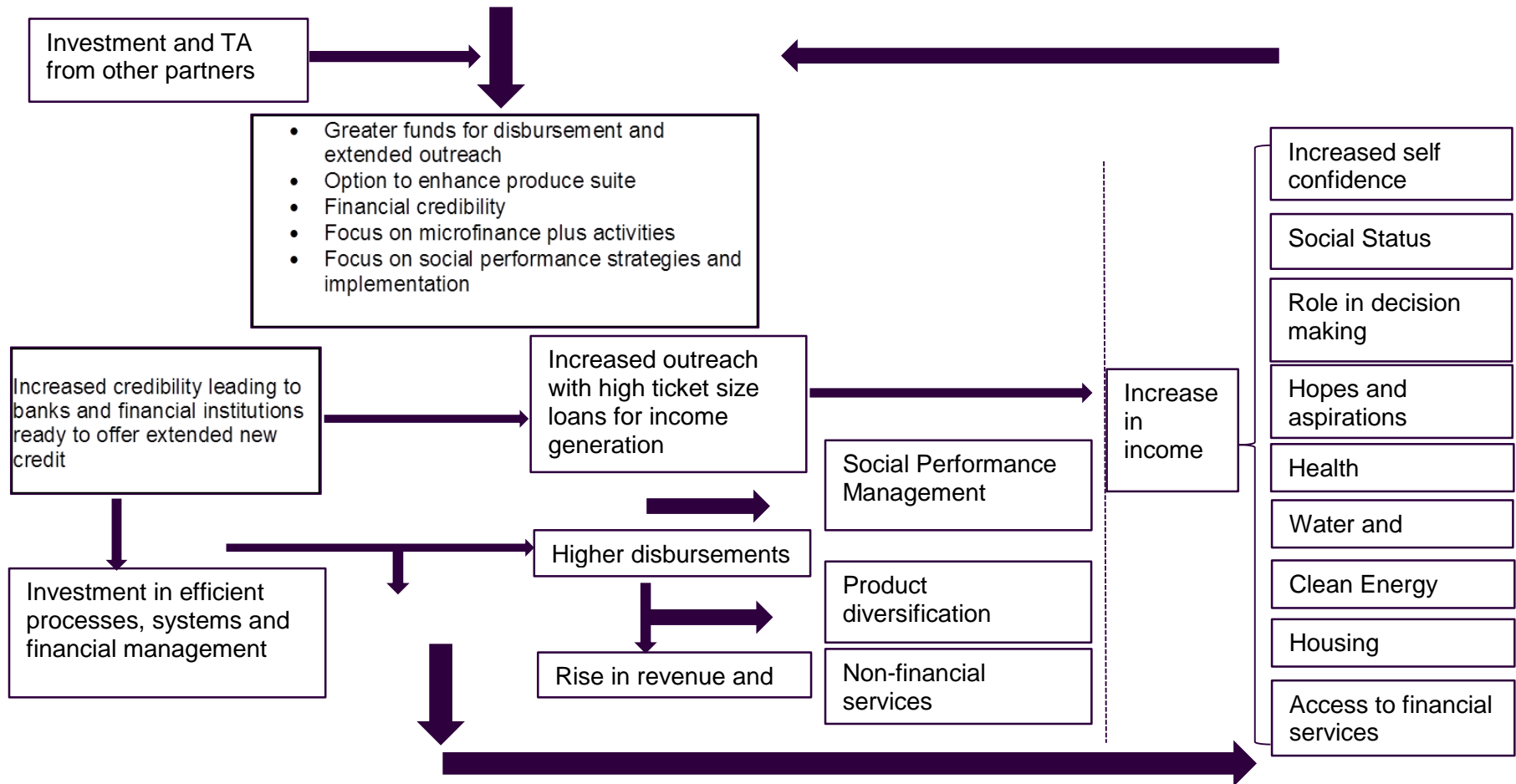
This research demonstrates Opportunity's strengths in:

- ☑ **Impact:** In a random sample survey, 86%-98% of clients report being better off than they were two years ago, compared to 46%-80% of non-clients. 60-69% report being better off by two or more steps on a ten-step scale of well-being, compared to only 20%-42% of non-clients.
- ☑ **Impact Investment:** Combining minority ownership with technical assistance to contribute to portfolio growth, client protection and social development.
- ☑ **Innovation:** Leveraging financial services for sustainable community development, such as offering loans for green energy, construction of appropriate latrines, and purchase of fuel-efficient stoves and water filters.
- ☑ **Client Responsiveness:** Partnering with organizations that have a deep respect for client engagement – one is a cooperative, another has elected client advisory committees at every level of the organization.
- ☑ **Poverty Outreach:** Operating in the poorest regions of India (for example the Northeast and Central), with large concentrations of historically discriminated against populations (people of lower castes, ethnic minorities, etc.).
- ☑ **Sustainability:** Dia Vikas' investment contributed to an exponential growth in number of clients served and portfolio size, while maintaining affordable interest rates, close to zero risk (99% repayment), and operational self-sufficiency.
- ☑ **Global Influence:** Dia Vikas played a leadership role in the impact investment community in re-investing in microfinance – after the crisis in India – and instituting client protection and social performance, to avoid a similar crisis in the future.



Opportunity International and Dia Vikas Impact Assessment Framework for Microfinance Investment in India

Dia Vikas Equity Investment and Technical Assistance





Opportunity's Microfinance Impact in India 2012-2015 – Partner Breakdown

Strong poverty outreach:

	RGVN	ESAF	Samhita
Women	100%	100%	100%
Percent who report making no household financial decisions independently	51%	5%	33%
Socially and economically marginalized population	100%	100%	100%
Rural	85%	38%	65%
Poverty Rate \$2.50/day	85%	80%	83%
Poverty Rate \$1.25/day	28%	24%	27%
Access to sanitation (portion with an appropriate latrine at home)	10%	59%	29%

Opportunity was Instrumental to MFI Financial Sustainability and Quality Client Service:

	RGVN	ESAF	Samhita
Dia Vikas' ownership stake	30%	22%	
Value of Dia Vikas investment	\$2.5 M		
Increase in active borrowers	73%	67%	13%
Increase in gross loan portfolio (USD)	79%	178%	154%
Operational self-sufficiency increased (2013 to 2016)	129% to 137%	115% to 124%	105% to 111%
Portfolio at risk (2016)	<1%	<1%	<1%
Client Retention (2016)	>90%	>80%	>75%

Client well-being improved as a result of their access to microfinance:

	RGVN	ESAF	Samhita
Clients Use of loans for investment in business/farm	88%	95%	97%
Clients reporting increased income as a result of loan	89%	84%	83%
Clients reporting increased well being	98%	86%	89%
Non-Clients reporting increased well being	80%	76%	46%
Clients reporting increased well-being by more than 2 steps in a ten-step scale	69%	60%	60%
Non-Clients reporting increased well-being by more than 2 steps in a ten-step scale	40%	42%	20%
Client increase in monthly income	66%	36%	58%
Non-Client increase in monthly income	40%	33%	37%
Client increase in access to latrines (2012 to 2015)	10% to 11%	59% to 72%	16% to 29%
Non-Client increase in access to latrines (2012 to 2015)	16% to 17%	57% to 63%	28% to 32%

For RGVN clients: household diet became more diverse for clients than for non-clients: 33% of clients added one or more new food items to their diet, compared to only 19% of non-clients. Items added included pulses, rice, fruit, green vegetables, and milk and cookies.

Long-term and secondary impacts, including reduction in the poverty rate and women's empowerment, were not evident during this timeframe and/or using these tools.