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Microfinance in India: The ICICI-CASHPOR Alliance

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RECAP

- By 2009, 200 largest MFIs in the world will need an estimated **\$3 billion** in debt financing as well as increasing amounts of capital to maintain a healthy balance sheet.
- Commercial bank and other private capital is currently less than 5 percent of the total



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BACKGROUND

- Accelerated Microenterprise Advancement Project (AMAP) Financial Services Knowledge Generation project
 - Funded by USAID
 - Implemented by Development Alternatives, Inc. (DAI)
- Undertakes research to document innovative and replicable types of linkages
 - ICICI: India's 2nd largest bank
 - CASHPOR: among India's largest MFIs



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MICROFINANCE IN INDIA

- Approximately 1,600 MFIs
 - <10 have portfolios greater than Rs. 50 M or \$1.15 M
- Both large and small MFIs: lack of funds and capital adequacy constraints
- Commercial Banks: “priority sector lending quota”



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ICICI BANK

- 560 branches and extension counters
- Total Assets: \$38 billion (March 2005)
- Total Advances: \$21 billion

- Microfinance: 0.44% of total portfolio
 - Bank Led Model: \$37 million
 - Partnership Model: \$55 million
 - 31 Partner MFIs
 - CASHPOR, among the 5 largest



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CASHPOR

- Vision to reach 1 million poor women by 2010
- Virtually no capital to leverage
 - Commenced operations with an investment of a mere \$30,000.
 - Subordinated debt (quasi equity) from Grameen Trust, Grameen Foundation and Calvert Foundation
 - Subsequent USAID funding of operating deficits
- Approximately 68,000 clients and a total portfolio of \$6.2 million
 - tripled during the past two years
- Partnership with ICICI enabled CASHPOR to:
 - Grow portfolio by \$2 million (approximately 1/3 of total)
 - Reach an additional 24,000 clients
 - Slightly more than 50% of growth in past two years
 - Will be greater in future years; 4 of the 5 new districts are part of the partnership



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PARTNERSHIP MODEL

- MFI: service agent of the Bank
 - Loan analysis, processing and recovery
- Bank: approves and advances loans to the clients
 - Loans are on the Bank's books and are in the Bank's name
- Bank: provides an uninterrupted flow of funds to the MFI
- Income:
 - Bank earns the interest
 - MFI earns the fees
- Risk Sharing:
 - MFI bears first risk (e.g up to 20%; 8% in case of CASHPOR),
 - then Bank bears remaining risk



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MECHANICS OF THE MODEL

- Risk Management
- Methodological Adjustments
- Flow of Funds
- Documentation



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ONGOING CHALLENGES

- Product Development
- Sharing of Costs/Benefits
- Operational issues
 - MFI Capacity
 - Bank Infrastructure



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THANK YOU!

Questions??

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