Summary Findings

Case Study Evaluation of Six BIO MSME Financial Sector Investments in India

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Commissioned by bio Development through Investment

Evaluation conducted by MicroSave Market-led solutions for financial services

1. Background

The Belgian Investment Company for Developing Countries (BIO) signed a management contract with the Belgian State that mandates BIO to conduct an external case study evaluation of at least five of its investee institutions each year. For 2017, BIO commissioned *MicroSave* to conduct a case study evaluation of its six financial sector investments focused on the MSME segment in India. These included:

A. Three Microfinance Institutions (MFIs) that primarily offer credit to women: **Annapurna Microfinance, Utkarsh Microfinance,** and **Fusion Microfinance**

B. One Non-Banking Financial Institution (NBFI) engaged in infrastructure and equipment finance: **Srei Equipment Finance Limited**

C. Two Private Equity Funds (PE Funds) that invest in SMEs: **VenturEast Proactive Fund,** and **BTS India Private Equity Fund**

2. Objectives

The primary objective of the study was to assess how BIO's investments have been able to address the financing needs of MSMEs in India and how BIO has been able to support the investee institutions to address their financial as well as non-financial challenges. The secondary objective was to assess the additionality of BIO's financing in the financial sense (complementarity) as well as non-financial sense (including aspects such as institutional building, enhancement of business practices, improved working conditions for staff, improved level of gender equality and so on).

3. Evaluation Methodology

A Theory of Change based approach was adopted to evaluate the six investee institutions. OECD's Development Assistance Committee (DAC) criteria including Relevance, Efficiency, Effectiveness, Impact and Sustainability was used to assess the progress against the intervention logic. Also, as per the ToR's requirement, the programme was assessed on 'additionality' both in financial as well as non-financial sense.

4. Results

Based on the evaluation of the six investee institutions, BIO's performance has been good. BIO covered a broad range of financial institutions that served the financial needs of a wide spectrum of enterprises within the MSME sector. A brief highlight of the results across the evaluation criteria is given below.

4.1 Relevance

Overall, BIO's investments may be considered good on the relevance criteria.

- BIO invested in financial institutions that not only helped address the demand for credit among the microenterprise segment but also provided risk capital to SMEs to encourage innovation that had an impact on the population living in semi-urban areas.
- BIO's investee institutions focused on finance-deficient states. Though financial product innovation was limited largely due to regulatory constraints.

4.2 Effectiveness

BIO has been able to broadly achieve its investment objectives across the six investee institutions.

- Cumulatively, the lending institutions supported by BIO, provided access to credit to more than 2.82 million customers.
- BIO, through PE funds, apart from providing equity, was able to extend non-financial support to SMEs. This includes guiding the management through active participation in board meetings, helping improve their MIS, reporting systems, accounting systems, auditing functions by hiring controller level professional(s), setting up audit and statutory functions etc., and helping them raise funds.

4.3 Efficiency

BIO's investment efficiency was fair.

- Similarity of BIO's investment and monitoring processes with that of other Development Finance Institutions (DFIs), and absence of additional documentary requirement during due diligence process helped BIO achieve efficiency.

- BIO was swift in executing transactions, and was able to complete most of the investment transactions within the expected timelines.
- From BIO's perspective, the efficiency shown by it is fair, as it leveraged the market insights gathered by other DFIs and participated in co-financing opportunities (wherever possible).
- While the monitoring of investments was regular, the development assessment tools and processes are still evolving.

4.4 Impact
BIO's investment has had a good impact in addressing the financing gaps of MSMEs in India.

- Through investment in new and emerging MFIs, BIO supported access to finance among women especially in the low-income and underserved states in northern and eastern part of India. BIO's MFI investees cumulatively serve almost 10.2% of the total microfinance customer base in India as on March 2017.
- While the financial institutions paid taxes, it is difficult to estimate the tax payment at the level of microenterprises supported by MFIs. Such enterprises are really small and informal and hence may not be paying direct taxes to the government.
- BIO also had a significant impact on its investees in terms of ESG compliance. All its investees submit an annual ESG report and the private equity funds also prepare a report on the ESG status of all their investee institutions. Specifically, emphasis on ESG compliance helped build capacities of the General Partners of the two PE funds on ESG assessment and reporting.
- BIO, however, had limited impact in terms of increasing the proportion of women employees, especially at MFIs. This is primarily because of the nature of the business and work environment that is not conducive to women employees. The prevailing social and physical infrastructure as well safety of women are some of the factors contributing to the poor working environment for women.
- The investment also had an impact on encouraging entrepreneurship and innovation among SMEs. The entrepreneurship encouraged through these institutions have a multiplier effect on employment generation.

4.5 Sustainability
Overall, the sustainability of the investment is fair.

- All the lending investee institutions are making sound financial return. However, the financial sustainability of the private equity funds and their investee institutions is somewhat mixed, with one PE Fund facing difficulty in making exits from portfolio companies and has made negative returns.
- BIO's focus on ESG compliance and annual ESG reporting helped sensitise the investee institutions towards environment and social sustainability. All the lending investee institutions adhere to IFC's Exclusion List and hence do not lend to any businesses that may adversely impact the environment.

4.6 Additionality
Based on the evaluation, BIO's performance on the additionality criterion is fair.

- BIO's first investment in the microfinance sector was significantly additional. It came at a time (2013 onwards) when the microfinance sector was recovering from the 2010 Andhra Pradesh crisis and the MFIs were reorganising their business to align with the revised guidelines from Reserve Bank of India for NBFC-MFIs.
- The non-financial additionality existed but it could have been more prominent. BIO through guidance as a board member helped an institution to conduct a thorough gender assessment exercise and also guided another institution on its Social Performance Management and Corporate Social Responsibility programmes.
- However, it is to be noted that the technical assistance grant offered by BIO was availed by only one of the six investees. This is partly due to the fact that some of the investee institutions were not aware of BIO's technical assistance facility.

5. Lessons/Recommendations
The lessons learnt and recommendation focus on key reasons for the success of the intervention, and how such success can be replicated.

- To expand the scope for investment in India, BIO should consider revisiting the investment strategy for the country and develop tiered exposure norms for countries. In addition to the current financial sector investments, BIO may look at directly investing in upcoming startups and emerging financial institutions such as Fintechs that aim to address challenges of MSMEs.

- BIO should consider differentiating its offering by including a more comprehensive and realistic technical assistance package that would not only include technical support by specialised service providers but also specialised international trainings, access to networks and forums, and knowledge management support.

- To expand access to first-hand information about the country and the sector, BIO may consider appointing a country-manager who will not only be responsible for monitoring of investment but also implementing BIO's overall country strategy for India.

- BIO should also take concerted steps to invest large amounts in the target institutions so as to have a sizeable stake in the investees to guide strategy. BIO may also consider focusing on niche aspects such as digital technologies, gender etc.

- BIO's current reporting requirement is aligned to those of other DFIs and should be continued. The recently introduced Development Assessment Tool needs to be discussed more frequently with the investees, so as to orient them about maintaining and reporting the required development indicators.