

# Business Standard

## MFIs see slowdown in bank funding despite a fall in the cost of funds

The average cost of funds for MFIs is 12-15 per cent, depending on their size

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Despite a fall in the cost of funds over the past year, banks remain shy of lending to microfinance institutions (MFIs), especially mid-size and small-size ones.

In general, about 60 per cent of funding for MFIs come from banks. The rest was met through instruments such as securitisation (the market for which had dried after demonetisation) and debentures, among others.

However, most banks have now restricted their funding to large MFIs, said entities in the segment.

“In the past year, the cost of funds for MFIs has gone down by 60-70 basis points. However, banks have remained cautious in lending, due to their own problems. As a result, a lot of MFIs are looking at options like non-convertible debentures, which is long-term lending; the amount is also bigger,” said Rakesh Dubey, president, Micro Finance Institutions Network.

The average cost of funds for MFIs is 12-15 per cent, depending on their size. “Over the past year, many public sector banks which had been actively

lending to MFIs have stayed away. This is also true of private banks. There is a slowdown in funding. Also, since there is a margin cap of 10 per cent for MFIs, banks can't increase rates despite rise in demand.

“Several MFIs are now also experimenting with options like co-lending to meet fund requirements,” said H P Singh, founder and managing director (MD) of Satin Creditcare Network.

According to Reserve Bank rules, MFIs’ lending rates cannot be more than 10 per cent over their cost of funds or 2.75 times of the average base rate of five large banks, whichever is lower.

The concept of co-lending is like bank consortium lending when two MFIs lend jointly to a borrower.

“The problem of funding is more with small MFIs. Also, now that 10 MFIs have graduated into banks, the overall funding has not much been impacted for big MFIs,” said Manoj Kumar Nambiar, MD, Arohan Financial Services.

The gross loan portfolio of non-bank MFIs stood at Rs 427 billion as on end-December 2017, about a third of the total size of the MFI sector, at Rs 1,233 billion.