microfinance

भारतीय लघु उद्योग विकास बैंक
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

A Brief Report

of

Round Table

on

"Fund Flow from Banks to the Microfinance Sector: Issues, Challenges and Way forward"

IIBF Leadership Centre, Mumbai - 400070

14th June 2012

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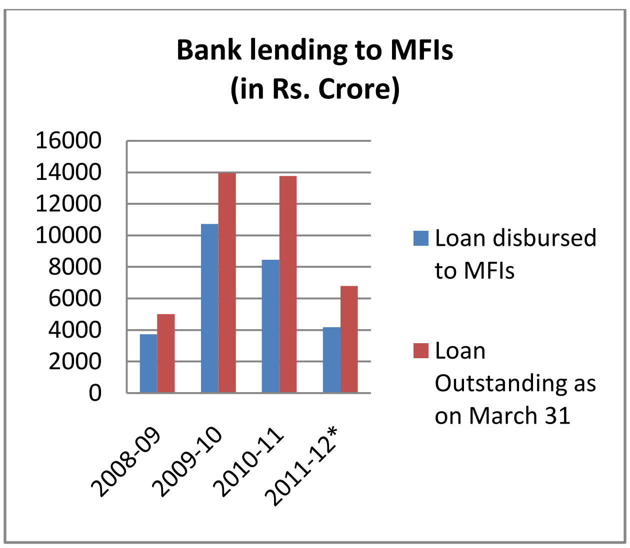
1. Background of the Round Table

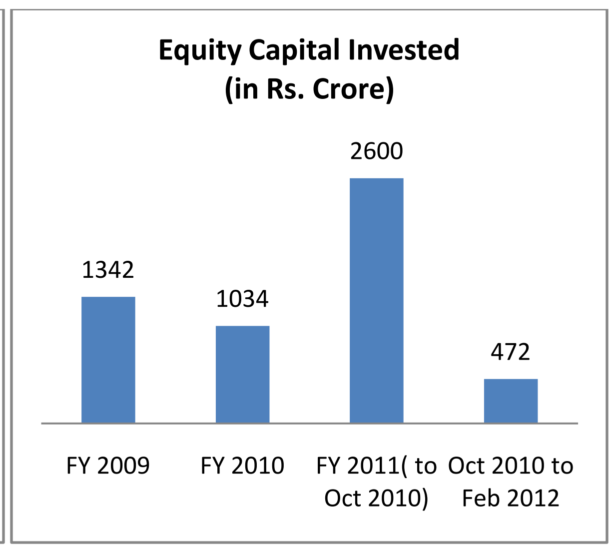
1.1. Microfinance Landscape and Status of Banks' Financing to MFIs

The microfinance landscape has dramatically altered since the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Act, 2010, severely impacting its credibility, resulting in liquidity concerns, decrease in critical financial support from Banks/ Financial Institutions, rise in delinquency rates and shrinking loan portfolio of MFI across India.

Despite the best of efforts from all quarters, bulk finance to MFI from Banks/ Financial Institutions has almost dried up in Andhra Pradesh, and the lending to MFIs outside AP has shrunk to a fraction of what it was earlier. Further Banks' lending to the sector has been extremely selective, amid higher risk perception and downgrading of MFI portfolio in the last 20 months. Lending support from Banks constitutes 80 percent of source of funds for the sector and is vital for its sustainability. A prolonged period of postponement of on-lending support from banks has led to a severe liquidity problem in most MFIs and leading some of them to the brink of bankruptcy. The private equity investments in microfinance that grew rapidly through 2009-2010 have now totally dried up. Further the funding cost in the sector has increased considerably in recent past, as banks have raised their effective interest rate by 3 to 5% making it extremely difficult for MFIs to manage their margins. The effect has been across a wide spectrum of organizations, but it is the small and medium size, startup, and emerging MFIs, that were faced with serious challenge of raising funds.



Source: NABARD, Status of Microfinance 2010-11
*Figures for FY 2012 are estimates from Legatum White Paper on Indian Microfinance, March 2012



Source: Legatum White Paper on Indian Microfinance, March 2012

1.2. Policy Developments during this period

Recognizingthe wide negative fallout on the sector and vulnerable customers, the policy establishment took several initiatives that resulted in positive developments over this period. Reserve Bank of India (RBI) constituted Malegam Committee and broadly acting on these recommendations issued specific guidelines for MFIs and financing banks. During this last one year, the RBI has issued series of guidelines, notifications, and directives, starting with creation of a separate category of NBFC- MFIs. The regulatory guidance extends to capital requirement, qualifying asset category, asset classification and provisioning norms, pricing of credit, fair lending practices, transparency and disclosure in interest rate, avoidance of multiple lending and excessive debt,recovery practices, corporate governance, and an improvement of efficiency using Information technology. Further the regulator has also directed banks to ensure that MFI to which they have provided on- lending funds do adhere to the 12%margin cap and maintain 26% interest cap (in order to classify for priority sector lending). The bankers have also been directed to obtain a quarterly Chartered Accountants Certificate stating, inter-alia, that qualifying asset of 85 percent is maintained, and 75 per cent of total loan is towards income generating activities. The Banking fraternity in a significant move concluded the corporate debt restructuring package with MFIs in respect of bank loans to the tune of over Rs 8000 crores. Earlier the regulator had allowed banks to recast the debt of MFIs without lowering the asset quality, as a one-time measure.

On December 2, 2011, the RBI opened up the external commercial borrowings (ECBs) channel for NBFC-MFIs, something that was previously open only to non-profit MFIs, and they raised the limit for borrowing from INR 24.9 Cr. (USD 5MM) to INR 49 Cr. (USD 9.8MM), opening new alternatives sources of funding for MFIs. A new Micro Finance Institutions (Development and Regulations) Bill has been drafted and tabled in the Parliament. The Bill aims to provide a regulatory framework for all microfinance institutions including NBFCs, societies, trusts, and cooperatives.

1.3. Response of the Sector to the Policy Developments

The microfinance community has also responded to the situation with appropriate measures, bringing in changes to their business practices, redesigning their products and services and their process and communication strategies to align themselves with the changing circumstances. The synergy that had been missing among stakeholders during the accelerated growth stage due to competition is now in place, with much wider participation in sharing information on their practices, lending rates, and customer data. Microfinance credit bureaus have been operational, and are successfully helping the MFIs in screening multiple borrowing by customers from MFIs. The network organizations, support institutions, research and policy advocacy groups have been working to bring microfinance back to track and prepare it for orderly and responsible growth. The lead initiative taken by SIDBI towards carrying out the Code of Conduct Assessments of MFIs has helped pave the way for ensuring effective client protection principles in the operations.

1.4. Policy Developments: New Challenges

Though the existing regulations have given greater legitimacy to the sector, it has also created new challenges for the MFIs, leading them to change their business strategies and scale down their expansion plan to newer geographical territories. As funding support has become scarce and costlier, MFIs have become selective in the way they conduct their business within the existing regulations, restricting their operations to existing locations, and not expanding to new and remote areas. Managing margins within the cap of 12% has been difficult for MFIs which already face increased cost of operations on account of shrinking portfolio and higher finance costs. Expansion to new locations requires investments which costs are even more difficult to absorb in the current environment. This is a perverse development, as poorer and remote areas that badly need services of microfinance will be denied the same on account of a regulation that seeks to protect the customers.

2. Round Table on "Fund Flow from Banks to the Microfinance Sector: Issues, Challenges and Way Forward

In the context of the above, **ACCESS-ASSIST** under its "**MICROFINANCE INDIAINITIATIVE**", in partnership with **Small Industries Development Bank of India (SIDBI)** and **Indian Institute of Banking & Finance (IIBF)** conducted the **Round Table** on "**Fund Flow from Banks to the Microfinance Sector: Issues, Challenges and Way Forward"** on **14th June 2012** in Mumbai. The Round Table was envisaged to provide a forum for facilitating a dialogue between the banks and the MFIs, to discuss the issues and concerns of banks vis-à-vis MFIs, challenges faced by the MFIs to comply with the new RBI guidelines, , and to strategize on possible interventions that could help in improving Banks' lending to MFIs. The Programme was co-organized by **Poorest States Inclusive Growth Programme (PSIG)** – being implemented by **SIDBI** and supported by the **UKAid from the Department for International Development (DFID).**

The Round Table was attended by 34participants that included senior representatives from public and private sector banks, RBI, MFIs, Industry Networks, SIDBI, SIDBI-PSIG, DFID, IIBF, ACCESS-ASSIST and technical service providers in microfinance. Specificallly, the Round Table witnessed participation from 16 banks.

The focus of this initiative was to bring together banks and MFIs to discuss and delve on financing of MFIs and possible solutions for the problems encountered by MFIs and banks. The objectives were to:

- Formally apprise banks regarding the compliance status of MFIs to both RBI guidelines as well as to the industry code of conduct
- Make an effort to understand and unpack the issues and concerns and of banks on MFI financing
- Discuss and agree on strategies that can facilitate a conducive environment in which banks' lending to MFIs can improve.

Following is a brief summary of the discussion from the Round Table:

2.1. Inaugural Session

2.1.1. Opening Remarks

Mr. Brijmohan, Former Executive Director, Small Industries Development Bank of India (SIDBI) and Chairman, ACCESS Development Services delivered the opening remarks at the Round Table. While emphasizing on the role that the MFIs have played in expanding the provision of microfinance services in underserved areas, he recommended that the Round Table should aim at arriving at a way forward towards creating a conducive environment, where banks' funding to the MFIs can improve. Further, he added that poor should not suffer in absence of line of credit. He also recognized that the microfinance sector has also responded positively to the new framework for banks' lending to MFIs that has come up after the Andhra Pradesh crisis. He also mentioned about the "Unified Code of Conduct for the Microfinance Sector in India" that has been arrived at between the two industry associations, MFIN and Sa-Dhan. There has been a process within the MFIs to adopt to this, as well as the RBI guidelines. Finally, he congratulated banks as well as MFIs for coming to a common platform to discuss the issues pertaining to bottlenecks in banks' funding to MFIs through the Round Table.

2.1.2. A Brief on DFID's "Poorest States Inclusive Growth Programme"

Ms. Anu Gupta, Senior Program Officer, DFID briefed the participants on the DFID's Poorest State Inclusive Growth Programme in India. The project will support SIDBI to expand the agenda of women empowerment through microfinance, as well invest in businesses that aim to build clientele amongst the poorer groups at the bottom of the pyramid in selected poorest states. Towards achieving this, £65 million over a period of 7 years between 2012 and 2019 is being provided by UKAid, with a mid-term review in 2015.

Under the microfinance and women's empowerment agenda, the project is envisaged to develop vehicles for delivery of microfinance services through building of community based organizations and MFIs. Further, the strategy is to encourage these entities to provide an array of financial services aiming at enhancing the income level through livelihoods, with least cost to clients, support the policies and mechanisms for responsible finance, and promoting adherence to standards and regulations. Also, SIDBI Venture Capital will garner funds from DFID and other investors, and invest in promising ventures that has potential not only to generate profits, but also poverty benefits.

The States under this project are Bihar, Madhya Pradesh, Orissa, Uttar Pradesh, Rajasthan, Jharkhand and West Bengal.

2.2. Present Status of Microfinance Sector: Liquidity Situation, Overview of Compliance on RBI Guidelines & Improving Client Centric Practices

Moderated by Mr. N. Srinivasan, Author of ACCESS-ASSIST's "Microfinance India: State of the Sector Report 2011", the session facilitated an update on the liquidity situation in the microfinance sector, overview of compliance on RBI guidelines and the related issues and challenges, and sectoral initiatives on improving client centric practices. The session was addressed by MFIs representing the diversity of the microfinance sector in terms of legal form/ size, Sa-Dhan and other stakeholders. The discussion rolled on from the past flurry of lending from banks to MFIs, the reasons of the Andhra crisis and the situation post crisis. The highlight was also on the positive steps taken by the Sector to cope up with the setback, and the efforts made by MFIs to refine their practices in alignment with the RBI guidelines.

During the presentations, it was highlighted by the representatives from the microfinance sector that in the post AP Act period, due to the freeze in the fund flow from banks, the MFIs have been facing acute liquidity crisis. As a result, in absence of availability of credit from the MFIs, the ultimate borrower is facing acute challenge of sustaining its livelihoods. Many of these are again going back to the clutches of the moneylenders.

2.2.1. Sectoral Efforts towards Client Centric Practices

It was also informed that while there has been a sectoral crisis, few of the developments such as the RBI guidelines for Banks' lending to MFIs under Priority Sector Lending (PSL) has provided a framework around which the microfinance sector is preparing itself to attract funds from banks. During this period, at the individual level, MFIs across the country have made efforts towards compliance on the RBI guidelines. At the sectoral level, concrete efforts have been taken to realign the focus on client centric practices as well as building infrastructure to address some of the issues such as over-indebtness of clients.

Towards this end, a unified "Code of Conduct for Microfinance Institutions in India" has been arrived at between the two industry associations viz. MFIN and Sa-Dhan. Further, the associations are making efforts towards strengthening the implementation of the Code towards greater compliance among its members. Most of the large MFIs constituting majority of the portfolio have registered themselves with the two credit bureaus in the sector, Highmarks and Equifax, and clients' details are being shared with the respective bureaus. However, for better utilization of this information, it is required that all MFIs report to the credit bureaus. There are issues of cost and affordability involved in this.

2.2.2. Compliance on RBI Guidelines: Status, Issues, and Challenges

Representative from industry association Sa-Dhan presented an analysis of data related to compliance on RBI guidelines collected from a sample of 50 organizations across 11 states representing different legal forms viz. NBFC, Section 25 companies, Societies and Cooperatives. Following are the highlights of the analysis:

- To ascertain Household income in rural and urban areas, MFIs have adopted the practice of self declaration supported by house to house surveys, contact/ group member information. While more than 66% of the MFIs comply on limit of Rs. 60,000 and Rs. 1,20,000 in rural and urban areas, MFIs have to leave many borrowers who are outside the limit
- On the limit of loan amount not exceeding Rs. 35,000 in the first cycle and Rs. 50,000 in the subsequent cycles, the level of compliance was as high as 84% among the MFIs, though it was felt that upper household income ceiling should be raised for repeat borrowers

- On the guideline of total indebtness of clients not exceeding Rs. 50,000, the MFIs have used various ways like credit bureau, member filled information in KYC form and self attested information, no objection and present loan o/s certificate, checking with institutions not part of the bureau. 68% of the sample MFIs comply on this. Limited number of MFIs contributing to the credit bureau constraints the effectiveness of the information.
- On tenure of loan not less than 24 months for loans in excess of Rs. 15,000 about 64% of the sample MFIs comply. It was informed that in case of crop loans providing loan period beyond 9 months amounts to mismatch of cash flows and hence could result in problems to the client. As a result MFIs are restricted to limit crop loans to Rs. 15,000 which is a serious limitation. Clients have been complaining on the extended loan tenors in order to comply with the RBI guidelines
- 92% of the sample MFIs provides loans without collateral as prescribed in the RBI guidelines. It was also informed that, in case of Housing Loan out of the funds from National Housing Bank (NHB), it is insisted to get mortgage of the house financed.
- On the RBI guideline that 75% of the aggregate loan amount should be for income generating purpose, 92% of the sample MFIs comply. This is also verified through loan utilization check after disbursement of loan
- Loan repayment periodicity at the convenience of clients – 68% of the sample MFIs comply on this guideline. These decisions are taken at the group level meeting
- On maintaining the margin cap of 12%, 88% of the sample MFIs comply. However, the increasing cost of bank loans has made it difficult for MFIs to realize the permitted margin. This will require frequent change in product and any small change in product or process becomes a hazard for field level communication. Exact methodology of calculation of margin cap is also unclear; a clear example from RBI would be very helpful.
- No penalty for delayed payment – 96% of the sample MFIs comply. MFIs train their field staff, and are conducting village level meetings and orientation programmes to encourage clients to deposit repayments on time. However, with no penalty ,the clients do not any disincentive to make late repayments

Further the MFIs highlighted the following issues:

- The problem in one state should not be allowed to influence and affect 30 million clients across the country. In wake of the Andhra Pradesh situation, the sector still faces a political risk
- Restricted fund flow to MFIs would be a setback for the banks' "Responsible Finance" drive
- In case the liquidity issues are not addressed quickly, the MFIs might lose good and potential clients, as they have suffered in the post crisis period. There is a huge concern on clients going back to the moneylenders
- MFIs require a continuous stream of funds for on lending, whereas banks usually wait for the year end to lend

- It would be good for banks to consider Tier II capital structure for MFIs
- Banks also ask for personal guarantees from top management of MFIs
- When the regulation has become stronger, why banks are holding back on lending
- The cost of compliance on RBI guidelines is huge. Various Auditors' certificates on RBI compliance are being asked by banks every now and then, which has a cost involved, and ultimately this cost would pass on to the borrower
- Banks do not lend unless MFIs have capital. For smaller MFIs raising capital is difficult as they do not even reach the break even
- The challenge is to lend to the poor, and remain sustainable despite the higher risks
- Delinquencies have increased manifold and are becoming an increasing proportion of the continuously shrinking portfolios
- Banks should give some incentive (lower interest rates)to MFIs that do well on social performance and responsible finance
- Banks with no credit loss can come forward and support funding
- There is a need to form some kind of partnership , either of banks and MFIs or Lenders' Forum and MFIs
- The sector has been demonstrating enhanced transparency and focus on client centric practices

The general feeling was that there was no justification for continued constraint on funds to MFIs from the banking system. The sector has responded well to the requirements of responsible finance, customer protection and RBI regulations. Many MFIs with business outside AP have been able to maintain portfolio quality and continued servicing of bank loans. RBI regulations clearly lay down norms for operations of MFIs and it is a tacit recognition by RBI that the sector is legitimately pursuing financial services business focused on vulnerable people. There is an urgent need on the part of banks to reappraise their risk perceptions and resume funding to the deserving MFIs, instead to keeping away from the entire sector.

2.2.3. Issues of Smaller MFIs (Section 25 companies, Trusts, Societies)

Representatives of smaller MFIs specifically highlighted the following issues:

Interest Rate

- Small MFIs since have minimal bargaining power are charged higher rate of interest than the large MFIs who have got better bargaining power.
- Commercial banks finance MFIs under Priority Sector and Agriculture, but charge commercial rate of interest
- Commercial banks do whole sale banking by financing MFIs, but charge high rate of interest that leaves little margin for on lending.

- MFIs are not permitted to charge penal interest but Banks/FIs are permitted to charge the same from MFIs.

Other Cost

- Periodical costs of inspection by Banks/FIs are paid by MFIs. MFIs are not permitted to recover inspection costs from borrowers.
- MFIs are required to make frequent visit to the borrowers at least on the due date of installments.
- Banks/FIs ask for Chartered Accountant certified statements in many other cases besides the quarterly CA certified statement prescribed by RBI. MFIs incur huge cost on such other certificates. Even for monthly statements of book debt/PAR statement banks insist on a Chartered Accountant certificate.
- Banks/FIs ask for rating reports of RBI/NABARD approved rating agency each year. MFIs incur costs on rating reports every year. This cost may have to be reimbursed financiers or out of microfinance development funds of NABARD or SIDBI.

Security

- Cash Security up to 10% is taken by most banks/FI for their loans to MFIs. That adds to the cost of funds for MFIs. However, MFIs are not allowed to take any security.
- Up to 110% of Book Debts are asked by banks/FIs as security.
- At times banks/FIs ask for personal guarantee of Directors

Renewal of Term Loan

- Some banks are reviewing and renewing the term loans each year.

Rescheduling/ Restructuring of loan

- In case of natural calamities like flood, draught/cyclone causing loss of assets, banks have been allowed restructuring/rescheduling of loans. The asset classification continues the same after rescheduling with the asset classification before rescheduling. Where as if MFIs restructure/ reschedule the loan, because of the above natural calamities, banks/ credit rating agencies treat such restructured loans as 'Substandard' even if they are regular at the time of restructuring.
- Any restructuring of loans to MFIs because of natural calamities or any other genuine reasons turns the restructured loan account to 'substandard asset' even if the loan account is regular in all respects at the time of restructuring. This puts the MFI in difficulty in getting further funds from banks /FIs

Compliance on RBI Guidelines:

- While most of the MFIs have enrolled with one of the Credit bureau, there are some lenders in the field like Banks, Govt. dept and Small NGOs who have not registered. As a result it is very difficult to exactly know the external borrowing by members. Hence local enquiry is the only method which MFIs are adopting. Sometimes banks do not accept the same.

Debt Relief

- Central government/state governments at times announce Debt Relief to borrowers of banks including co-operative banks. Such facility is not extended to MFIs.

Credit Guarantee

- Credit Guarantee Trust/Corporation has been setup to give guarantee on loans under priority sector. Such facility may be extended to MFIs.

Training, marketing support etc.

Borrowers of MFIs are poor, mostly illiterate, unskilled, and unorganized. MFIs have to spent lot of money and time providing them training on skill development, accounting and helping in marketing. MFIs may be provided fund for such activities.

The smaller institutions felt that they were worse-off in the hands of banks. Both rating agencies and banks perceived higher risks in dealing with them. Banks tended to deny or restrict loans, raise the interest rates, insist on higher collateral and ignore the good work done by small institutions in remote areas with very poor people. Smaller MFIs find it difficult to raise equity to the level required by RBI regulation and are worried that they would have to close down without equity and loan funds flows.

2.3. Banks' Perspective on Issues and Challenges in MFI Financing

Moderated by Dr. R Bhaskaran, CEO, IIBF, the session elucidated the perspective of the public and private sector banks and the challenges banks are facing in financing to the Microfinance Institutions. The session was an open ended and banks tried to make the MFIs understand their constraints and challenges in financing the Sector. The core issues raised were more concerned with the nature of policies and reforms laid by the regulator. The banks also came up with some suggestions which might be a step to break the logjam and facilitate better exchange of information between the banks and the microfinance sector.

In the opening remarks of the session, Mr. P.K Saha, CGM, SIDBI made an analysis of the current scenario, its repercussions, and the financial and operational health of the MFIs. He talked about the issues that affect banks in lending to the sector.

- The key concern is the liquidity crunch arising fromreduced fund flow. The break in the funds from the banks has lead to substantial shrink in the portfolio of MFIs. The decrease in the portfolio being just one of the consequences, the crucial hit being the delinquencies in the field. A study conducted by the CGAP and MCRIL shows that the Indian Microfinance industry is largest but is the worst in terms of portfolio quality

- Post crisis the banks have received some clarity due to the RBI guidelines, like –
  - Code of Conduct and client Protection
  - Transparency
  - Fair Practices

  These guidelines would help to strengthen the financial inclusion drive by the government of India and the Banks.
- The government of India is also trying hard to safe guard the small institutions under the financial inclusion drive and is in dialogue with the Andhra Pradesh government on the Andhra Pradesh Act pertaining to microfinance
- He raised concerns about the small MFIs which have suffered the most. Their health and sustainability remains the prime apprehension. He posed the following questions for deeper examination:
  - Whether there still remains a need for the small MFIs
  - Can they become sustainable in the near future
  - Can the industry associations help these MFIs in becoming sustainable
- If the liquidity issues are not addressed then the MF sector might lose good clients. It would be a huge setback for the responsible finance agenda of the banks. In this scenario, can banks think of jointly lending to the MFIs?
- He stated that the compliance to the RBI guidelines involve a cost to the MFIs due to which margins have shrunk. The rate of interest depends the risk of perception and does not depend on the size of the MFI.

The other issues highlighted by the banks are:

- Taking the sector ahead is the joint responsibility of the stakeholders rather than just the MFIs
- The major challenge that the banks are facing is the cap on lending to the MFIs. Microfinance lending is classified under priority sector but is just the 5% of the priority lending whereas the major chunk 95% is to farm and other sectors. The Nair committee says that lending beyond the cap of 5% cap for on lending to the microfinance institutions will not considered under priority sector.
- The CDR is not yet provisioned for the MFIs and so such respites cannot be offered. The RBI needs to look into this and relax the provisioning requirements
- In absence of clarity on regulation, the banks are not yet fully confident to lend. It is hard for them to understand that when MFIs are taking loans at around 15 to 18% and on lending at 26% they cannot post profits. The other concerns which also add up to the non confidence are solvency, operational self sustainability due to the operational cost being huge like – salaries etc.

besides there is no documented or data available on client protection, which worries the bankers whether this is actually being implemented on the field.

- MFIs deal with vulnerable people and hence face political influence which creates lot of pressures.
- Banks do not know how to finance the MFIs. The banking system is huge and so all in the branches are not aware and well informed of the sector.
- RBI to come out with certain guidelines for the banks on "how to finance MFIs"
- Banks have the freedom to appoint NGO-MFIs as a BC partner. This can be taken up strongly
- A Consortium approach could be taken up by the MFIs to seek funds from the banks
- There is lack of documentation on the good work by the MFIs. In absence of any data to substantiate the good work, specially in present times, there is a sense of risk perception among the banks. There is a need of substantive work on the data related to the sector.
- RBI to look into the matter of RBI compliance cost which is ultimately passing on the borrowers
- There is a difference between the understanding of the RBI and GOI on the institutional framework for Financial Inclusion, this needs to converge for better working and future initiatives

Both MFIs and Banks raised the following concerns:

- How to systemize and make the regulations uniform
- Lack of understanding on the policy – MFIs interpret it differently then banks do

2.4. Way Forward

In the "Way Forward" session participants recognized that banks have not been able to yet reach the remote pockets and therefore MFIs still have scopeand space for furthering the financial inclusion agenda. Towards forging this partnership between the banks and the MFIs, participants provided many suggestions so that an environment could be created, where banks feel more comfortable in lending to the sector. It was suggested that as the sector is moving towards a regulated form, it would take time for both banks and MFIs to understand each other within the contours of the framework of regulation, till a comfort level is achieved. In this context, it is important that RBI provides a "transition time" for the sector to comply with the new regulation in its true spirit. A strategy needs to be formulated on adherence to the guidelines. Also, the RBI and Government of India should set up Special fund vehicle with a long term focus. SIDBI could intervene on securitization and lending, and talk to RBI on relaxation of some of the stringent norms during transition. The other point of view was rather than relaxation, the MFIs should ask for a transition time for compliance.

RBI should look into the space that could be given to MFIs in the financial inclusion drive. This would increase the distribution network for achieving financial inclusion more effectively. RBI should consider MFIs as an integral part of the mechanism through which financial inclusion is achieved. Going forward, one of the key investments that will be required is on technology. This is the only way through which operational cost of MFIs could be brought down in the scenario of increasing interest rates from banks to MFIs, and eroding margins on account of a cap of 26% on onlending to clients. It was also suggested that banks may take more interest in governance aspect of MFIs, boards, organizationalstructure, etc. Select big banks and major lenders should sit and work upon these issues.

The sector has initiated the work on compliance on Code of conduct, and it is hoped that it is a long term initiative. Further, can banks push the agenda of social performance among MFIs, as it fits well within the framework of "Financial Inclusion?"

It was also shared by banks that business correspondent outlets have been opened in great numbers. However, the quality and delivery of services is a question. As MFIs are based in deep pockets of the rural areas, their staff can also make regular visits to these outlets. This could be a major area of work for the MFIs.

Also, as raised in the previous session, the sector needs to communicate the good work that it is doing. There is a need of close interaction between banks and MFIs. The banks need to understand the functioning and the context in which the MFIs operate. There should be an effort to educate banks on the microfinance sector.

While the Malegam Recommendations are more favourable towards the existence of bigger MFIs, whether the smaller MFIs can get into a consolidation or into the business correspondent model. Banks also need to realize their social obligation and choose all channels available to fulfill these obligations; that includes lending to MFIs for on-lending to marginalized sections of society.

2.4.1. Closing Remarks

In his closing remarks, Mr. Y C Nanda, Former Chairman, NABARD and Chairman, ACCESS-ASSIST highlighted the fact that there is an element of ambiguity in the RBI circular on Banks' lending to MFIs under PSL and its interpretation.

While the government wants the smaller MFIs, the RBI guidelines clearly indicate the preference for large players. The reality is that smaller MFIs below a portfolio of Rs. 50 – 100 crore cannot sustain their operations, unless they are operating in a limited area,

MFIs also need to showcase their good work, and think beyond credit. It is obvious that when clients are repaying to the MFIs, something good is happening. Poor households other than in Andhra Pradesh have repaid, so banks should also consider this fact. Banks need to engage more with the MFIs besides lending. Banks need to engage with the governance of MFIs. Lenders' forum should take these steps forward.

Government of India had created Rs. 100 crore Microfinance Development and Equity Fund (MFDEF). This fund could be utilized to lend to the MFIs.

2.5. Vote of Thanks

Vote of Thanks was delivered by Mr. Nilesh Arya, Associate Director, ACCESS-ASSIST. He thanked the partners of ACCESS-ASSIST for the Round Table, i.e. SIDBI and IIBF, and the support from DFID-PSIG. He also thanked Mr. P K Saha, CGM, SIDBI, the SIDBI-PSIG team, Mr. Y C Nanda, Chairman, ACCESS-ASSIST, Mr. Brij Mohan, Chairman, ACCESS Development Services, Mr. Vipin Sharma, Managing Trustee, ACCESS-ASSIST, and the esteemed participants from banks and the microfinance sector.

He specially thanked Mr. N. Srinivasan, Author, Sector Report 2011 and Dr. R. Bhaskaran, CEO, IIBF for moderating the sessions in the Round Table. He congratulated the Microfinance India Team of himself and Ms. Juhi Natu and the Executive Director of ACCESSS-ASSIST Ms. Radhika Agashe for the effort on the Round Table.

Last but not the least; he thanked Mr. Bipin Nair from the RBI to patiently listening and absorbing the discussion between the banks and the MFIs. He hoped that the discussion has been fruitful towards contributing to the policy development process within the RBI towards the sector.

LIST OF PARTICIPANTS

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10.	Srinivas Bonam	Head Inclusive Banking Group	Indusind Bank
11.	Hari Rajagopal	Manager Rural & Development Banking / Advisory	Rabo Bank
12.	Jayesh Modi	Head Inclusive Banking Unit	HSBC
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20.	J.K Thakar	DGM	State Bank of India
21.	Sunil Bothra	Head - Finance	Intellecash
22.	V S Radhakrishnan	CEO	Janalakshmi Financial Services
23.	Om Prasad	AGM	Punjab National Bank
24.	Prabhakara S	Joint Director Academics	IIBF
25.	Prashant Thakker	Global Business Head - Microfinance	Standard Chartered Bank

		&Regional Head, Development Organisations, Southern Asia	
26.	Bipin Nair	AGM	Reserve Bank of India
27.	Y C Nanda	Former Chairman	NABARD
28.	Surendra Shrivastava	DGM, PSIG	SIDBI
29.	Prakash Kumar	DM, PSIG	SIDBI
30.	P K Saha	CGM	SIDBI
31.	Balaji Iyer	Vice President	HSBC
32.	Abhishek Agrawal	CFO	Swadhaar Financial Services
33.	P.V Borkar	Chief Manager	Bank of India
33.	Parashuram Nayak	Director	Swayamshree Microcredit Services
34.	G V Subba Reddy	RM	Royal Bank of Scotland