

## 9<sup>th</sup> State Financial Inclusion Forum (SFIF), Odisha

**Key Theme: “MUDRA- Status, Challenge and Way forward”**

**Date:** 2<sup>nd</sup> March 2016

**Venue:** Hotel Mayfair Convention Hall, Bhubaneswar, Odisha

### DRAFT PROCEEDINGS

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**Background:** Small Industries Development Bank of India (SIDBI) in partnership with Department for International Development (DFID), UK, is implementing a bilateral project titled “Poorest States Inclusive Growth (PSIG)” programme. The programme aims at to facilitate better access to financial services by the poor and to promote pro-poor investments in India’s four poor states of Bihar, Odisha, Uttar Pradesh and Madhya Pradesh. The key mandate of the programme as earlier said is to improve access to both financial as well as non-credit for poor people and to strengthen the institutional framework so as to help the poor in improving their income and quality of life.

*ACCESS-ASSIST* has been assigned by PSIG to coordinate the initiatives on policy advocacy in the above four states as well as at the National level. Setting up of multi-stakeholders State Financial Inclusion Forum (SFIF) in each PSIG focus state has been agreed as one of the key mechanisms to achieve the objectives under the policy advocacy component at the state level. The SFIF is expected to act as a platform to facilitate effective coordination and synergy among all stakeholders in creating an enabling environment and accelerating the process of financial inclusion in the state.

As agreed by members, the 9<sup>th</sup> meeting was organized on the underlying theme of “**MUDRA- Status, Challenge and Way forward**”. The SFIF Secretariat had interaction with different Banks, MFIs and related stakeholders to accumulate their feedback for preparing background note on the theme; which was later on shared with the SFIF members and special invitees as well. The 9<sup>th</sup> SFIF meeting brought in substantial participation from Banks, Govt Department, BCs, NGO-MFIs and sector experts. The list of SFIF members and other participants of the meeting is provided in the *Annexure-1*.

### SUMMARY OF PROCEEDINGS

Action Updates from previous SFIF Meeting: The 8<sup>th</sup> SFIF meeting was organized as an expanded forum meeting- FI Conclave on 4<sup>th</sup> Nov’2015 which was attended by nearly 100 participants. It had 4 technical sessions mainly on PMJDY, SHG-BLP, MFI Lending and Financial literacy. As such there was no specific action points made during the expanded SFIF. The SFIF Secretariat prepared the consolidated ATR of the previously held SFIF meetings; however, it was not shared because of time constraint. The consolidated ATR is given in *Annexure-2*.

## **1. MUDRA: Perspective & Progress:**

The aggressive nature of the financial inclusion engine in India seems to be taking shape of inclusion, covering farmers, low income households, small entrepreneurs, and the bottom billion. MUDRA as the Pradhan Mantri Mudra Yojana(PMMY) was formally launched on 8<sup>th</sup> April 2015 by the Hon'ble Prime Minister with the objective of funding the unfunded by formalizing finance to informal Non- Corporate Small Business Sector (NCSB). All Non-Corporate Small Business Segment (NCSBS) comprising of proprietorship or partnership firms running as small manufacturing units, service sector units, shopkeepers, fruits/vegetable vendors, truck operators, food-service units, repair shops, machine operators, small industries, food processors and others in rural and urban areas, are eligible for assistance under MUDRA. It offers three distinct products such as 'Shishu', 'Kishore' and 'Tarun' as per the stage of growth and funding needs of the beneficiary micro unit and extends loan assistance ranging from Rs.50,000 to 10, 00,000/- Bank branches would facilitate collateral free loans under MUDRA scheme as per customer requirements.

The implementation of PMMY monitored at national level by DFS through their regular VCs and state level by SLBCs and the progress of is captured through a portal developed by MUDRA Ltd.; portal linked to MUDRA website. Banks are given login access and update the data. Information about state wise / bank wise performance with disaggregated data on category of loan, category of borrowers captured. The scheme has made reasonable progress, in terms of disbursing loans for various enterprises since its inception. All the stakeholders' including the banks are putting up their efforts to reach out the potential and needy borrowers and supporting them with their loan assistance. At national level the MUDRA scheme has sanctioned Rs 107628 crore for 273.44 lakh borrowers as on 26 February 2016. In the State of Odisha, MUDRA has covered 17 lakh accounts and sanctioned an amount of Rs.4198.7 crore out of which Rs. 4022.11 cr has been disbursed as on 19.02.2016.

### **Presentation by MUDRA Representative:**

MUDRA launched as a wholly owned subsidiary of SIDBI and operates through its 97 branch offices. It acts as a regulating and refinancing agency to all MFIs and other intermediary entities which are in the business of lending to micro/small business entities engaged in manufacturing, trading and service activities. A set of Eligibility criteria for scheduled commercial banks, RRBs and NBFC-MFIs/NBFCs finalized and communicated. Already 27 Public Sector Banks, 17 Private Sector Banks, 31 Regional Rural Banks, 1 State Cooperative Banks (Gujarat SCB), 11 Urban Cooperative Banks, 45 MFIs (including 10 non NBFC MFIs), and 26 NBFCs, (totalling to 158) shortlisted as partners. 27 Public Sector banks, 4 Pvt Commercial Bank and 23 RRBs/State Coop Bank executed General Refinance Agreement.

A list of 10 indicative schemes including Women Enterprises schemes prepared and announced. 27 project profiles uploaded in MUDRA website. Women enterprises scheme has 25 bps interest rebate. Banks to lend to the eligible borrowers, and claim refinance from MUDRA by submitting a simple application. The interest rate for commercial banks and RRBs is set at 6.72%. For NBFC/MFIs a differential rate of interest varying from average of the base rates of 5 largest commercial banks to SIDBI's PLR (11.95%) based on rating is proposed. At present, MFIs lend to their customers at around 23-

24 per cent after borrowing funds from banks in the 13-14 per cent range. With MUDRA entering the field, MFIs are expected to get finance at a much lower rate, and in turn, lend to clients at lower rates. As on date MUDRA has already sanctioned 2883.16 crore and disbursed 2052.72 crore to various Banks and MFIs for further lending.

## **2. Major points of discussion:**

- According to the participating banks, initially mainly the shishu loans have been enrolled for the cases which were identified by the rural branches
- The loans have been approved without enough due-diligence. In the last one month the outreach under MUDRA loans has gone up from 30% to 70% in the state. In many cases, MSME loans given earlier were now termed as MUDRA loans
- Misleading advertisements causing confusion among people that MUDRA scheme is an entitlement rather than a loan scheme with a mandate of repayment.
- Each participating branch should be given a relative target based on their outreach, etc. in order to increase the enrollment under the scheme. There should be some indicators identified to examine/measures the outcomes of the scheme. A more qualitative analysis of the effects of the scheme is needed alongside the quantitative calculations
- The loan applications sent under NULM, etc. are often being diverted as MUDRA loans, without much consent of the customers with the sole motive of showing an increase in the outreach
- Almost 50% of portfolio under MFIs is actually classified under MSME loans mostly accounting for shishu loans. Given the stringent process of due diligence under Kishore and Tarun schemes, MFIs are not able to participate in its expansion.

## **3. Way forward/Suggestions:**

- Participants were of the view that legacy issue like NPA should not be a constraint for the institutions in eligibility criteria under MUDRA rather there should be more focus on incremental issues by identifying safe borrowers to scale up the scheme with the help credit bureaus
- It was suggested that there should be a relaxation in eligibility criteria under MUDRA for Urban Cooperative Banks and Regional Rural Banks as these are the prime facilitator for financial inclusion in rural areas that leads to increase the outreach along with accessibility of the scheme by the needy beneficiaries
- A cluster based approach should be established for providing capacity building and hand holding support to the beneficiaries under MUDRA
- MUDRA may re-look at the entry criteria; needs some relaxations so that increased number of institutions avail the refinance facility and channelize the funds to entrepreneurs
- Evaluation/ monitoring process required to measure the outcome/impact of the MUDRA scheme
- Synergy between MFIs/ Banks/ Government to expand the outreach
- Creation of MUDRA sub-committee for better coordination, convergence, etc. The State Govt may set up a suitable measure on this in the near future.
- Proper credit information needed to avoid multiple lending to single borrower

#### **4. Next Steps:**

Based on the deliberations and suggestions made in the meeting, the Secretariat will work on the following key action points and report progress up-dates during next SFIF meeting:

- Carry out a quick assessment of the impact of MUDRA loans on the clients, document and share that with the stakeholders
- Advocacy with MUDRA management to re-look at the current eligibility criteria for Banks, RRBs, UCBs, MFIs etc and relax that appropriately
- Facilitate linkage of MFIs with MUDRA and banks so that increased number of organizations avail the re-finance facility and channelize that to for potential entrepreneurs in the state

#### **About Next SFIF Meeting:**

- Next SFIF meeting will be held in June'2016
- "Social Security Schemes for the Poor" may be taken up as the key theme for the next SFIF meeting. Accordingly, SFIF Secretariat will develop a background note and share that.

**Annexure-1: List of Participants-SFIF Members**

Sl. No	Name & Designation of SFIF Member	Representing Institution	Present
1	Dr. T. K. Pradhan, Director	Institutional Finance, Govt. of Odisha	Member
2	Mr. S. K. Kale, CGM	NABARD	Mr. S. K. Nayak, DGM
3	Mr. B. P. Samantaray, Convenor	SLBC (UCO Bank)	Mr.A.K.Roy & Subash Ch Rath
4	Mr. Jagadananda, Co-Chair & Mentor	Sa-Dhan & CYSD	Member
5	Mr. H. K. Pradhan, Professor	XLRI, Jamshedpur	Member
6	Mr. Govinda Pattnaik, MD & CEO	Annapurna Microfinance Pvt. Ltd	Mr. Satyajit Das, Chief Finance Officer
7	Ms. Nayana Mohanty, CEO	Swayanshree Mahila Samabaya Ltd	Member
8	Mr. S. Hansda, Sr. Divisional Manager	LIC of India	Mr. S. K. Mohanty
9	Mr. A.R. Samal	SFIF	Member
10	Mr.P.V. Divekar	UGB	Member
11	Mr. Brundaban Nayak	OGB	Mr.Nilakantha Biswal & Mr. Pitambar Pati
<b>SFIF Members (Absent)</b>			
12	Mission Director, OLM	Odisha Livelihood Mission	
13	Mr. S. Ramakrishnan, CGM-SFMC	SIDBI	
14	Dr. Haribandhu Panda, Pro-Vice Chancellor	CUTM	
15	Mr. Ashutosh Rath, Head	Dhanei- KGFS	
16	Ms. Supriya Pattanayak	Sector Expert	
17	Mr. Ambika Prasad Nanda	TATA-CSR	
<b>Other Invitees Present</b>			
18	Mr. Mayadhara Behera	MUDRA	
19	Mr. Subrat Kumar Parida	MUDRA	
20	Mr. Dibakar Maharana	SMCS	
21	Mr.Dr. Bibhu Panda	BIMTECK, Bhubaneswar	
22	Dr. Usha Gopinath	Director, ACCION	
23	Mr. B.N.Pattnaik	SBI, Bhubaneswar	
24	Mr. D. N Mandal	Dy.RM, Central Bank of India	
25	Mr. L.Panda	Indian bank	
26	Mr. Mohan Ku. BaliarSingh	Consultant	
27	Mr. Debashis Chaudhary	United Bank of India, Manager	
28	Mr. Sanjib Puhan	ACCION	
29	Mr. Sailendra Kumar Raisina	Allahabad Bank	
30	Mr. Ashok Pattnaik	PNB Circle Office	
31	Mr. Sukamal Saha	Union Bank of India	
32	Mr. Shyam Sundar Sharma	ACCION	
33	Mr. B. P . Mohanty	Bank of India	

34	Mr. Sambit Da	Central Bank of India
35	Mr. M.D. Yakub	HighMark
36	Mr. Kumar Vaibhav	Annapurna Microfinance
37	Mr. Arjun Pagal	AMPL
38	Mr. Arun Prasad Saha	YES Bank
39	Mr. A.K. Sahu	CM, Syndicate Bank
40	Mr. A.C. Sahu	Canara Bank
41	Mr. Nilachal Pradhan	GUFS Pvt Ltd.
42	Mr. Biswanath Lal	LDM(SBI), Khorda
43	Mr. A.K. Nanda	Sr. Manager, PSCD,RO, Syndicate Bank
44	Mr. Jeeban Jyoti Mohanty	State Manager-FI & ME, NULM,SUDA
45	Mr. Md. M. Amin	ADHIKAR Micro Finance
46	Mr. P. K. Sharma	AXIS Bank
47	Mr. Abhijeet Mallick	IDBI Bank
48	Mr. Nitin Shukla	IDBI Bank
49	Mr. B.D. Routray	IOB
50	Mr. Pravakar Jhapalsingh	Bank of Baroda
<b>Delegates from DFID, SIDBI-PSIG &amp; ACCESS-ASSIST present</b>		
51	Ms. Ragini Bajaj Chaudhary, Advisor	DFID
52	Mr.U.C. Gaur, GM	PSIG-SIDBI
53	Mr. Rajesh Kumar, State Director-PSIG	PSIG-SIDBI
54	Mr.Pravanjan Mohapatra	TL, M&E ,PSIG
55	Mr. Sushanta Kumar Sahu	PSIG-SIDBI
56	Mr. S.K.Sahu	SIDBI
57	Mr.Rashmi Ranjan Swain	ACCESS
58	Mr. Narendra Nayak, Associate Director	Access-Assist
59	Ms. Ankita Mohanty, Sr. Project Co-Coordinator	Access-Assist
60	Ms. Sayantani Mukherjee, Project Coordinator	Access-Assist

**Annexure-2- Consolidated ATR of SFIF**

Sl.No.	SFIF	Date	Theme	Action Taken
1	1 <sup>st</sup> SFIF	18 <sup>th</sup> Dec'2013	Deliberations held on the Objectives & process of SFIF & A2F Report	NA
2	2 <sup>nd</sup> SFIF	20 <sup>th</sup> Mar'2014	SHG Bank Linkage and Convergence between NABARD & NRLM/OLM	1. Undertaking a small/pilot study to find out the "Reasons for NPAs in Bank Lending to SHGs" in collaboration with OGB. 2. Piloting the implementation of Credit Bureau in SHG-Bank linkage programme (SHG-BLP) in collaboration with UGB. 3. Identifying potential SHPIs & plan for their Capacity Building.
3	3 <sup>rd</sup> SFIF	20 <sup>th</sup> June'2014	Financial inclusion through Micro Insurance in Odisha: Issues & Challenges.	Collecting/compiling the issues and challenges faced by the service providers and MFIs in delivering micro insurance services.
4	4 <sup>th</sup> SFIF	31 <sup>st</sup> Oct '2014	Micro Pension for Poor	Advocacy to include micro-pension in SLBC Agenda
5	5 <sup>th</sup> SFIF	29 <sup>th</sup> Jan I'2015	Financial Inclusion through BC Model- Prospects & Challenges	1. Advocacy with SLBC & DIF on creating a specific agenda and sub-committee on BC model in the state 2. Listing out issues of BCs and share that with the sub-committee
6	6 <sup>th</sup> SFIF	20 <sup>th</sup> April'2015	PMJDY–Beyond Opening of Accounts	Compiling information on PMJDY Info Kit
7	7 <sup>th</sup> SFIF	24 <sup>th</sup> July'2015	Role of Financial Literacy in Financial Inclusion of the poor- Initiative, Strategies, Challenges, and Way forward	Dipstick Study of the FLCs
8	8 <sup>th</sup> SFIF (Expanded)	4 <sup>th</sup> Nov'2015	<i>State Financial Inclusion Conclave</i> with the participation of nearly 100 Delegates from various organizations	---

➤ Other initiative- Review of the draft MFI Bill-2012 and provide the consolidated feedback to DFI

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