



# Financial Inclusion & Responsible Finance

## Sectoral Initiatives

Sa-Dhan and MFIN believe that there is individual merit in the different approaches existing in the financial services sector. These approaches should complement each other and bring synergies in a way that they address the needs of people in a clear and responsible manner.

Both the Associations are committed to ensuring client protection, transparency, reporting, adherence to the Code of Conduct, compliance to regulation and above all the commitment for poverty alleviation and serving the poor in the best possible manner.

We believe that microfinance is an effective strategy for poverty alleviation and has the potential for far-reaching impact in transforming the lives of millions of underprivileged people.

MFIs are committed to working with the government in taking forward the agenda for universal financial inclusion.



### Reach of MFIs on March 2013

Loan Portfolio Outstanding	22273.13 Cr
Client Outreach	27.4 million
Urban Clients	33%
Rural Clients	67%
Women Clients	95%
SC/ST Clients	21%
Other Minority Groups	23%
Disabled Clients	0.03%

The cumulative number of SHGs linked with banks in 2012 is 79.6 lakhs

*It is important to ensure that financial services are unbiased, appropriate, transparent and adhere to client protection and door step delivery with a strong human touch. These services are often coupled with other social investments; education (financial literacy), sanitation, health and social empowerment. In the last few years, the Indian microfinance sector has come a long way in adopting best practices in responsible finance. There is a growing recognition and commitment among the service providers to ensure client centricity in strategy and operations.*

### Usage of Microfinance Loans

Agriculture | Animal Husbandry | Handlooms & Handicrafts | Non Farm Micro Enterprise | Small Business & Services

Finance is an efficient tool in spreading economic opportunity and fighting poverty. Compared to other parts of the world, India has a wider network of rural banks and a deeper financial system. In spite of the improvements in the last three decade in delivering financial services, the underprivileged still remain underserved. In India, out of every 1000 persons only 99 had a credit account and 600 had a deposit account at end of March 2010<sup>1</sup>. There are about 6.3 bank branches for every 100,000 people in India. In terms of geographical activity there are, on an average, less than 3 branches per 100 sq km. For rural India the numbers are 3.5 branches per 100,000 people and less than 1 branch per 100 sq km of land area<sup>2</sup>. The simple task of accessing the nearest bank branch is often the most severe challenge.

Microfinance in last two decades has emerged as a widely recognized tool to bring the underserved segments into the mainstream financial sector. To provide the last mile connectivity to this segment, microfinance institutions work in tandem with the banks predominantly under the priority sector guidelines. In effect, these microfinance institutions have reached to more than 30 million low income households in India.

<sup>1</sup>Source: Report on Trend and Progress of Banking in India 2010-11

<sup>2</sup>Source: C Rangarajan Committee Report on Financial Inclusion, dated January 2008

### Services Offered by Microfinance Institutions

Micro Credit, Micro Insurance, Micro Pensions | Savings through SHGs and Business Correspondents | Financial Literacy | Enterprise Training

**The need for efficient and reliable financial services for economic development cannot be disputed. For the marginalized, such access can enable an increase in scale of their existing enterprise or diversification into a new source of livelihood.**

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## Sectoral Initiatives

### Furthering the Sector's Responsibility

#### Industry Code of Conduct (COC)

Sa-Dhan and MFIN have set up a comprehensive Code of Conduct for all microfinance institutions. The Code of Conduct focuses on issues such as client protection & grievance mechanisms, governance, disclosures, transparency, behavior and client education. Over the last two years, a total of 90 COC Assessments have been conducted by SIDBI (51), Sa-Dhan (26) and Smart Campaign (13).

#### Client Protection and Redress Mechanism

Lenders ensure the adherence to the principles of client protection. Both Associations have established a process of conducting onfield assessments to check compliance to the Code of Conduct and those regulations set up by the RBI.

Advice and directions are given by the Ethics and Grievance Redressal Committee formed by Sa-Dhan. The committee serves as a self regulator and has the power to suggest measures against erring members. The primary objective of the committee is to facilitate the compliance to the Code of Conduct and ensure a fair, ethical and timely grievance redressal by the Association upon complaints of non-compliance by the member/s.

#### Responsible Finance Forum

Lenders, Associations and other stakeholders have come together to form a Responsible Finance Forum to ensure fair and sustainable financial services through MFIs. This forum monitors activities in the microfinance sector, conducts various studies to understand client responses and the delivery of microfinance services. It primarily focuses on building a robust client protection framework for MF borrowers.

### Focusing on the Poor

#### Credit Information Bureaus (CIBs)

There is an increase in the number of Microfinance institutions that are becoming part of credit bureaus; sharing client data periodically and generating client credit reports before disbursing loans. This is a significant initiative to profile the credit history of low income borrowers, understanding their credit behavior, repayment patterns and

multiple lending and over indebtedness. Currently, almost all MFIs are reporting to the CIBs with over 100 million client records captured in the system. More than 1 million reports are generated every month by the MFIs before sanctioning loans to borrowers.

#### Progress out of Poverty Index (PPI)

PPI is a statistically-sound, yet simple to use, poverty measurement tool for organizations and businesses with a mission to serve the poor. PPI helps organizations to identify clients, customers, or employees who are most likely to be poor or vulnerable to poverty, integrating objective poverty data into their assessments and strategic decision-making. In India, over twenty two MFIs are using the PPI to gather insights about their target of poor clients, using this tool and to track their movement out of poverty over a period of time.

### Data and Transparency

#### Established Reporting Mechanism

A strong reporting mechanism has been established to periodically capture the financial and social performance of MFIs. All MFIs submit their financial statements to the Associations and a detailed analysis is published annually in the **Bharat Microfinance Report**. A quarterly review is also conducted through an initiative called **MicroMeter**.

#### Information in the Public Domain

The sector is releasing more information on MFIs into the public domain; such as credit ratings, social performance rating, Code of Conduct Assessment reports, client information in Credit Bureaus and details of products and pricing.

### The Micro Finance Institutions (Regulation & Development) Bill 2012

The Micro Finance Institutions (Development and Regulation) Bill 2012 was introduced in the Parliament on May 22nd, 2012 and subsequently referred to the Parliamentary Standing Committee on Finance.

This Bill provides for an orderly growth and development of the microfinance sector, through a detailed regulatory framework. The significant contribution of this bill is provisioning of regulatory and supervisory framework to a sector which is catering to 30 million low income households and working for the last two decades; it will strengthen MFIs to become part of a larger framework of financial inclusion to work in tandem with banks for mainstreaming the underprivileged and marginalized sections of society.