

# Bankers – MFI Exposure Visit Report in Uttar Pradesh

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**MFI – Margdarshak Financial Services Ltd**

Under

**Poorest States Inclusive Growth (PSIG) Programme**



**Date: 27<sup>th</sup> October'2014**

**Lucknow, Uttar Pradesh**



## **1. Introduction:**

The DFID supported Poorest States Inclusive Growth (PSIG) programme is being implemented by SIDBI to enhance the income and employment opportunities of the poor households in four of the underserved states viz Bihar, Odisha, Uttar Pradesh and Madhya Pradesh. The key purpose of the program is to improve income and reduce vulnerability of poor people and small producers by expanding their access to finance and markets. The PSIG programme it is envisaged to benefit the poor and vulnerable people, especially women, in the above low-income states, providing financial access to 12 million poor by way of capacity building of MFIs, facilitating technology led models, product development and roll-out, setting up risk funds etc. ACCESS-ASSIST, a specialised affiliate of ACCESS Development Services for Financial Inclusion has been assigned the task to coordinate the policy component of the programme in the above four states and at national level. One of the identified priorities within PSIG policy mandate is to undertake initiatives leading to enhanced flow of funds from banks to microfinance, for both the MFI and the SHG channels. In line with the programme mandate, ACCESS-ASSIST has been organizing various thematic workshops, roundtable discussions, consultative meetings etc. at both national and state levels, involving different key stakeholders and facilitating constructive and forward looking discussion specifically between banks and MFIs for increased funds flow to the microfinance sector.

## **2. Need for the Bankers-MFI Exposure:**

Adequate and timely funding support plays a critical role for the growth and sustainability of microfinance program and facilitates greater financial inclusion in the process. The major sources of funding for MFIs in India have traditionally come by way of debt from apex lenders and banks, social and commercial equity financing from donors and investors. As bank lending to MFIs for on lending to SHGs, JLGs and individuals were recognized as part of priority sector lending, the banks increasingly provided loans to MFIs for this purpose, which also helped to fulfil their priority sector lending targets. However, post Andhra Pradesh crisis in 2010, the fund flow from banks to MFIs across the country, including in Uttar Pradesh, was severely affected. As reported, there are 22 MFIs operating in Uttar Pradesh at present. It is encouraging to see that a few public and private sector banks including SBI, BOB, Canara Bank, UBI, Allahabad Bank, PNB, BOI etc have resumed their lending to MFIs in the state sensing the business opportunity.

In all consultative meetings organized so far with the Bankers, the need for orientation for state and regional level bank officials on the business model and operations of MFIs was expressed. Thus, as a follow-up of that the 1<sup>st</sup> Bankers-MFI Exposure programme was organized on 27<sup>th</sup> October'2014 under SIDBI-PSIG in Uttar Pradesh. Margdarshak Financial Services Ltd, one of the leading and potential local level NBFC-MFI kindly agreed to host the exposure programme. ACCESS-ASSIST coordinated the exposure programme. The key objectives of the exposure programme were,

### 3. Objectives of the Bankers-MFI Exposure Visit:

- Familiarize bankers on the MFI operation, management practices, MIS, risk mitigation mechanism, client protection measures, functions of the branch etc of the MFIs
- Facilitate direct interaction of the bankers with SHG members/borrowers in order to have better understanding on their group, loan and enterprise management etc
- Solicit feedback from bankers on the overall microfinance operation with specific areas on which the MFIs should work more to attract bank lending

### 4. Methodology Adopted:

The 1<sup>st</sup> banker's exposure programme in Uttar Pradesh was organized in a collective manner. In order to facilitate the programme effectively, 2-3 rounds of preparatory meetings were held among the state SIDBI-PSIG, ACCESS-ASSIST and Margdarshak teams. A brief Concept Note (attached) was developed and shared with all stakeholders. Later on the team visited all the PSU banks, met with the Regional Heads, shared the concept note and requested them to participate in the one-day exposure programme. Based on their initial consents, SIDBI-PSIG, Delhi office was requested to send out the Invites to all the Regional Heads. As per the suggestions of majority of the banks, 27<sup>th</sup> October' 2014 (Monday) was finalized for the date of exposure and the detailed activity for the day was worked out.

### 5. Participants in the Bankers-MFI Exposure Programme.

The exposure visit was organized at Margdarshak's branch office and a few sessions in Hotel Comfort Inn in Lucknow. The participants included senior bank officials from RBI, ten Public Sector Banks and local level Regional Rural Banks; officials from SIDBI Lucknow; staff of Margdarshak, and officials from ACCESS-ASSIST Lucknow and New Delhi office. A list of participants is provided as Annexure1. The exposure visit was divided into three stages combining both in-class presentations and branch and field visits to make it a learning experience for the bankers.

Detailed programme schedule was as follows:

#### **PROGRAMME SCHEDULE**

<b>Time</b>	<b>Activity</b>
09:30 AM – 10:30	<ul style="list-style-type: none"><li>• PSIG Introduction &amp; Overview; MF industry overview and updates, MFI Rating, responsible finance, credit bureua etc- ASSIST &amp; SIDBI</li><li>• MFI overview and its functions-Magrdashak</li></ul>
10:30 AM – 01:00	Branch visit at Barabanki and field visit with JLG clients in three different areas
01:30 PM – 02:30	Lunch
02:30 PM – 04:30	Presentation on function and role of following different departments in Margdarshak Financial Services <ul style="list-style-type: none"><li>• Operations</li></ul>

	<ul style="list-style-type: none"> <li>• MIS</li> <li>• Audit</li> <li>• HR &amp; Training</li> <li>• Other Initiatives</li> </ul>
04:30 PM – 05:00	Open Discussion and valedictory
<b>Date</b>	27 <sup>th</sup> October 2014
<b>Venue</b>	Hotel Comfort Inn, Vibhuti khand, Gomtinagar, Lucknow

## 6. Proceedings of the Day:

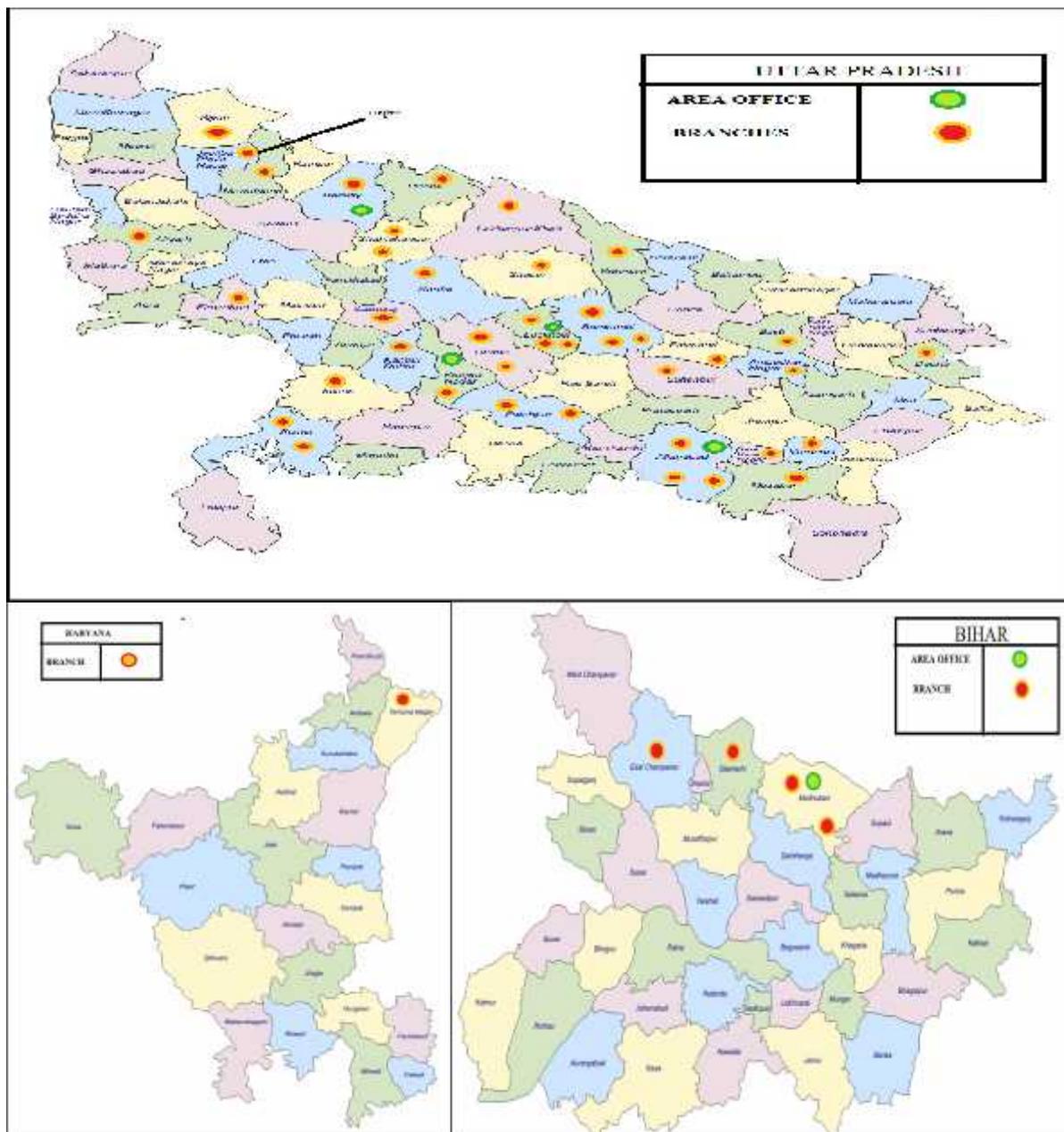
### 6.1. Introduction to Margdarshak and sector overview at Hotel Comfort Inn:

At the outset, Mr. S.N Singh, GM-SIDBI welcomed the bankers and other dignitaries for the event at Hotel Comfort Inn followed by formal introduction by each participant of the programme. Mr. Singh emphasized how SIDBI is working towards poor specially women and how the MFI funding is helping in raising their standard of living. He also laid stress on ratings of MFI's and how SIDBI and access assist too provide individual rating through COCA. Ms. Shipra Singh, Senior Manager, ACCESS-ASSIST thanked the bankers for their kind participation and also explained about PSIG programme, its activities in other States and the objectives of the exposure programme. SIDBI-PSIG State director Mr. Utpal Kumar Chakraborty, State Director, SIDBI also gave a brief about the rationale behind this exposure visit. He added that SIDBI is trying to build confidence of sector by providing technical support to MFIs. They also encourage MFI in doing system audits and loan portfolio audit. SIDBI also supports SHPI. They are trying to support even Regional rural banks for deepening of financial inclusion and reaching out to poor. Mr. Anoop Mitra, AVP-HR, MFSL welcomed the Delegates and shared an overview of the organization. The prime thrust of the organisation providing a holistic bouquet of financial products and services to the economically weaker enterprising sections of the community for enabling mainstreaming and socio-economic betterment.



As explained to bankers Margdarshak Financial Services Ltd (MFSL) is a closely held public limited NBFC-MFI incorporated in 2007. Adapting industry best Information Technology and client centred practices MFSL has been engaged in enabling the rural and urban producers in accessing small amounts of capital through group based individual lending methodology. MFSL is also a licensed aggregator for NPS-Lite Swavlamban scheme where-in the un-organised segments of the community are provided with pension products approved by PFRDA.

Margdarshak is operating in 30 districts of Uttar Pradesh, which is the largest state population wise of India. Apart from Uttar Pradesh MFSL has an operation in 3 districts of Bihar and 1 district of Haryana. The districts have been chosen taking into consideration the objective of enterprise and livelihood financing in the long term. All districts have a large number of micro entrepreneurs and workers involved in internationally acclaimed crafts.



Operational Areas & coverage of MFSL across three states in India

Margdarshak team gave a brief about figures of their clients and portfolios to give the bankers an idea about the expanse of operations.

	No. of loans	Amt. of Overdue	Outstanding
<b>Current</b>	48245	0	4192.35
<b>1-30 days</b>	442	3.88	26.05
<b>31-60 days</b>	121	1.39	2.65
<b>61-90 days</b>	84	1.35	1.85
<b>91-120 days</b>	37	0.10	0.17
<b>&gt;120 days</b>	0	0.00	0.00
<b>Total</b>	48929	6.72	4223.07

Figure 1: Portfolio quality as of Sept 2014 (Rs. in lakhs)

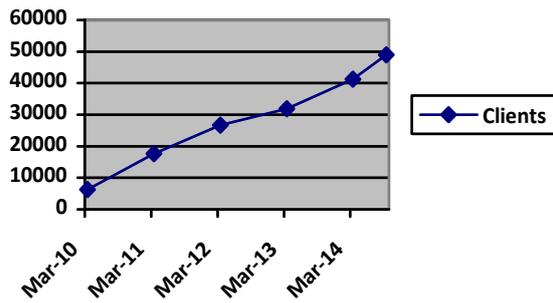


Figure 2: Number of clients over the years

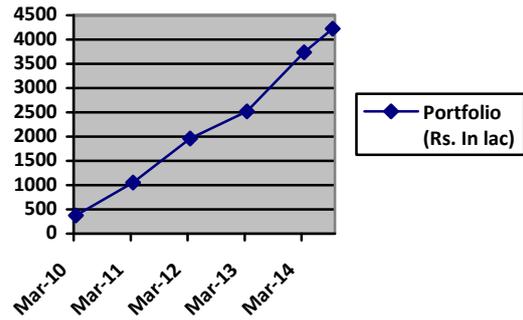


Figure 3: Portfolio over the years

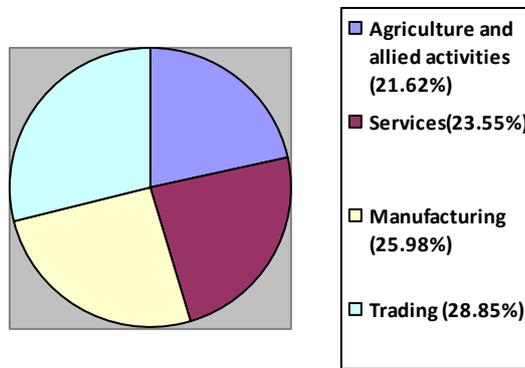


Figure 4: Sector wise loan distribution

Having observed to the presentation, bankers appreciated the efforts of MFSL to reach out to a financially excluded segment. However as the bankers had little or no exposure to the working of an MFI, they had some queries like the expectations an MFI has from bankers, the role of BC model guidelines, collateral MFIs take for giving loans etc.

## 6.2. Field Visit-Barabanki:

Following the presentation at the HO, the whole team of Delegates, got divided in three groups, were taken to three different groups of clients to interact with them get the actual taste of how the poor women are making efforts to improve their standard of living. The characteristic of the group is that the members of the group are belonging to a vicinity of 500 metres and they have different livelihood options like railway catering, junk dealers, vegetable vendors, stitching and embroidery work etc. The cap on loan amounts is different in rural and urban area because the livelihood options are not of the same levels.



Here the bankers were curious about the livelihoods options the group has, the repayment rate, and defaulter management etc. The bankers were really impressed by how a social pressure within the group minimizes the default rate which is nonexistent in case of banks leading to climbing NPAs. The bankers also tested the knowledge of the group members regarding the systems and processes at group level. They interacted with the group members and tried to elicit responses from them regarding the very purpose of the group formation, age and number of memberships, savings and credit status, need and purpose for loans that they take from MFSL. Bankers also asked questions related to benefits of working with MFI not money lenders or other sources, impact in their lives, group penalty process, capacity building programmes for members etc .

The senior management and other staff of MFSL responded well to each of the query from the bankers. The bankers were very pleased to see that the repayment rate of the groups to MFSL was >99%. Close rapport building with the members, easy loan processing, simple documentation, availability of door step delivery of services, collection of repayments from the group locations, regular loan monitoring and guidance to members has been imperative for this task. The main reason attributed for the high repayment rate has been attributed to the internal pressure inside the group. A group as a whole is responsible for the repayment of the loans of all the members. If one person defaults then his loan amount has to be borne by the entire group.

### **6.3. Visit to Branch: Barabanki**



Having spent more than an hour on the field meeting various groups the bankers then gathered inside the Barabanki branch of Margdarshak. The bankers had talk at length with the management and also pointed few shortcomings in the branch e.g. absence of Board displaying total loan disbursement and outstanding on daily basis, colorful chart papers, account opening numbers in Pradhanmantri Jan dhan yojna on display, though they were happy to see the code of conduct board displayed in the branch. Mr. Utpal Chakraborty asked many questions to the staff regarding RBI banking guidelines, data management at branch level, credit bureau check etc. The bankers were made aware of the local processes of the branch by the area managers. Bankers also asked about the difficulties/challenges in the field and mechanisms for grievance handling. The Barabanki branch has a current loan portfolio of Rs. 1.23 crores. Some queries from the bankers are given below:

- Do you monitor about the income generating activities of SHGs?
- What is the portfolio size of the branch and how do you disburse loan?
- How to ensure if RBI guidelines on interest rates are being followed?
- What is the member size of the group and how do you select members?
- Checks on loan feasibility and loan utilization
- How to verify if multiple lending exists?
- Cash in transit Insurance

## **7. Department wise presentations and discussion at Hotel Comfort Inn:**

The post-lunch session was held at Hotel Comfort Inn. Department wise presentations were provided on Operations, MIS, and Audit, HR, Non Credit Community Services, Social Performance Management, and Responsible Finance practices by the concerned head of the departments.

### **7.1. Presentation on Operations and MIS:**

MD of MFSL, Mr. Rahul Mittra also joined post lunch for a meaningful discussion. In this presentation MFSLs operational lending model was discussed, area selection matrix, field level processes of borrower identification and borrower training were discussed. Back and branch office processes were discussed to give bankers a better idea about the back end operations. Various types of

organizational MIS were discussed. Mobile integration of accounts and 100% web solution for microfinance operations were the achievements of MFSL. During the field visit bankers were already shown how group and members data is being managed through mobile phones and how it gets updated at the server level directly. Future endeavors in MIS were also discussed. Margdarshak is going to launch tablet based application for smoother data management in coming months.

**7.2. Presentation on Audit systems:**

Purpose behind audit and the structure of internal audit team was discussed. Frequency of internal audit whose snapshot is given below

Branch Category	Portfolio size	Frequency
BIG	>3 crore	Quarterly
MEDIUM	1 to 3 crore	Half Yearly
SMALL	<1 crore	Half Yearly
*In case PAR is more than 2% then audit frequency will be quarterly		
*In case of OD branches the branch also needs to be audited by internal audit or monitoring team.		

Methodologies of field and branch audits were discussed with special mention of sample size and the audit parameters. Bankers raised queries related to most common problems/issues identified/being faced in auditing, technology and infrastructural problems etc.

**7.3 Presentation on Human Resource and training:**

Mr. Anoop Mittra gave a brief presentation on the organogram of MFSL. Also he shared the processes followed while recruiting field officers. This brought some questions from the bankers regarding how they chose a right person, what are the checks and measures etc? Bankers also raised questions about the basic educational qualifications required for a field officer, capacity building for field workers, and also maintaining the morale of the work force, do they have hire and fire policy etc.

The bankers also were keen to know about ratings from CRISIL and COCA ratings. Ms. Shipra Singh gave them overview on ratings and grading, which was later discussed in detail during the presentation. They also asked how they identify the borrower and how they ensure that they are not defaulters. Importance of credit bureaus was explained to the bankers and how data is being collected and how it is cross-checked for the members before taking decisions on lending. MFI team explained they cross question in CGT client group training and do probing with group members. CGT is of two days in which the trainer passes information pertaining to KYC, Insurance and processing fee, this also includes training to do signature. The second round is GRT which is an assessment of CGT training.

MFI also insisted that they keep a check on loan feasibility and loan utilization but in addition said they can only work towards minimizing risk and cannot eradicate it completely. Bankers had

apprehensions about the safety of the money in transit also. MFSL team explained that they have insurance for cash in transit which is at 1-2% depending on the size of the branch.

The exposure programme finally got concluded at about 5.00pm with a vote of thanks given by Margdarshak, SIDBI and Access-Assist to the bankers.

**Bankers’ voice at the end of exposure visit:**

*“The exposure visit was very good. These types of visits help to know the working of MFIs”*

*“The experience was good and covered almost all the aspects of MFI working”*

*“Lead bank may be approached to take up the matters about MFI in SLBC meeting”*

*“Purpose is commendable”*

*“It was an eye-opener for me as I did not have much knowledge of field operations of MFI and the presentations were quite informative”*

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**ANNEXURE**

**1. Summary: Pre/Post Exposure Visit Feedback**

Pre-Visit	Post-Visit
<p><b><u>Key Expectations</u></b></p> <ul style="list-style-type: none"> <li>• Understand MFIs various departments, systems and procedures etc.</li> <li>• Interaction with branch &amp; see field operations.</li> <li>• To understand constraints and issues involved in bank funding to MFI</li> </ul>	<p><b><u>Overall Feedback</u></b></p> <ul style="list-style-type: none"> <li>• Good rating on visit content and methodology. Bankers gave average to good rating on exposure visit duration as some wanted more time and more content from it</li> </ul>
<p><b><u>Present level of information and understanding</u></b></p> <ul style="list-style-type: none"> <li>• Lack of awareness about MFI operations, MIS in MFIs, internal audit system of MFIs, services provided by MFIs and responsible finance practices by MFIs. This was measured by taking opinions from bankers on a scale of 1 to 5 in increasing order of understanding.</li> </ul>	<ul style="list-style-type: none"> <li>• The awareness levels of bankers related to MFI operations, MIS, audit etc moved from poor to average and good.</li> </ul>
<p><b><u>Challenges perceived as hindrance in achieving greater success in MFI lending from banks</u></b></p> <ul style="list-style-type: none"> <li>• Lack of funds</li> <li>• Low understanding of among bankers of MFI business model</li> <li>• Unavailability of clear policy on lending to MFI at bank level</li> <li>• Concerns on margin and loan utilisation</li> </ul>	<p><b><u>Comments on key take-aways</u></b></p> <ul style="list-style-type: none"> <li>• Exposure of field level operations</li> <li>• Financial aspects and MFI working</li> <li>• Understanding of JLGs</li> <li>• Learn the way of moving of economy to rural/ weaker sections of society</li> </ul>
<p><b><u>Perception of bankers for risk factors and management of that by MFIs</u></b></p> <ul style="list-style-type: none"> <li>• Bankers think that the risk</li> </ul>	<p><b><u>Key areas for PSIG support</u></b></p> <ul style="list-style-type: none"> <li>• Providing awareness and interactions</li> <li>• Boosting already existing government</li> </ul>

<p>management capabilities of MFIs are somewhat average.</p> <ul style="list-style-type: none"> <li>Bankers perceive the future of small Non profit MFIs to be stable and believe that RBI is providing an enabling regulatory environment for MFIs</li> </ul>	<p>FI programmes.</p> <ul style="list-style-type: none"> <li>Organize a state level bankers committee meeting with MFI and show the MFI working</li> </ul>
<p><b>Banker's Overall Suggestion</b></p> <ul style="list-style-type: none"> <li>To also see how the members are utilizing their loan money</li> <li>LDMs should be involved in this process</li> <li>Lead bank may be approached to take up matters about MFI in SLBC meeting</li> <li>Visit to at least 2-3 groups engaged in different activities</li> <li>Incorporating Audio/visual content in presentations</li> </ul>	

## **2. Participating Banks**

<b>Sl. No</b>	<b>Name of the Participants-Bankers</b>	<b>Representing Bank</b>
1	Mr. Dinesh Chand Pal	Gramin Bank of Aryavrat
2	Mr. Shailendra Singh	SBI
3	Mr. Mukesh Kumar	SBI
4	Mr. K.M Saxena	Syndicate Bank
5	Mr. R.C Gupta	PNB
6	Mr. Atul Mishra	Canara Bank
7	Mr. Jitendra Kumar Masand	Allahabad Bank
8	Mr. Ajay Mehrotra	Bank Of India
9	Mr. Anil Shrivastava	Oriental Bank of commerce
10	Mr. Avnish Kumar	Bharatiya Mahila Bank
11	Mr. S.K Mishra	RBI
12	Mr. Rahul Mittra	Margdarshak
13	Mr. S.N Singh	SIDBI
14	Mr. K.K Singh	Gramin Bank of Aryavrat