

State Microfinance Lenders Forum Meeting

Proceedings of Meeting

October 14, 2015, BIRD - Lucknow

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 viz. Uttar Pradesh, Bihar, Odhisa, and Madhya Pradesh. The key mandate of the programme as earlier said is to improve access to both financial as well as non-financial services (savings, credit, insurance, pension, remittance, mobile banking etc) for poor people and to strengthen the institutional framework so as to help the poor in improving their income and quality of life through multifarious initiatives.

While SIDBI is the implementing agency for PSIG, ACCESS-ASSIST has been assigned as Secretariat to coordinate the initiatives on policy advocacy in the above four states as well as at the national level. The first meeting of the Microfinance Lenders forum was organized on 14th October at Bankers Institute of Rural Development (BIRD), Lucknow.

The MFI industry sunk into a crisis after 2010, when the Andhra Pradesh government promulgated an ordinance to regulate its activities. The development affected not only loan recoveries, but also severely affected bank funding to MFIs. However, there has been a reversal in the sector’s performance in the last 2 years with return of lender and investor confidence. Andhra Pradesh earlier had accounted for a major share of MFI assets. No state now accounts for more than 20 per cent of loans from the microfinance industry. Over the past three years, MFIs have raised Rs. 2,000 crore as equity and Rs 24,000 crore as additional funds from banks. During FY 14-15 alone, MFIs raised a total of Rs. 276.48 bn in debt funding (from Banks and Other Financial Institutions) along with an all time high of around Rs. 1,700 crore through Private Equity deals.

As estimated, the microfinance industry is likely to see a turnaround with its loan book growing at 35 % to reach Rs. 45,000 crore by March 2016. Indeed there has been an improvement in the flow of debt funding and equity capital to the sector, resulting in 43 per cent growth in MFI loan assets during 2013-14. In order to sustain the current pace of growth, MFIs will have to raise equity and address the challenges associated with low promoter shareholdings and a near-term decline in profitability. Further, the MFIs’ dependence on bank loans is expected to remain high over the medium term.

For the last 4-5 years, Small Industries Development Bank of India (SIDBI) has started several responsible finance initiatives directed at improving MFI practices to address the issues and concerns vis-a-vis the microfinance sector arising from the AP crisis. One of the key interventions taken in this regard was the formation of the “Lender’s Forum” to promote transparent, responsible and commercially sustainable industry practices and code of conduct so as to better safeguard the interest of the poor clients . Given the fact that adequate and timely funding support plays a critical role for the growth and sustainability

of microfinance programs the main objectives of the regional level lender's forum meetings are aligned with the national agenda with a main focus on promoting investments in the MFI sector.

Some of the main objectives of the Regional Lender's Forum are as below:

- To help bankers identify and familiarize with the needs, issues of the sector at the state level
- To build consensus and synergies among bankers for undertaking higher lending to MFIs while being responsible lenders
- To identify issues within MFIs that requires improvement through regular studies, monitoring and interfacing with investors and other sector players (with support from professional secretariat)

The meeting was successful and attracting 22 stakeholders including 11 Nationalized Banks/Private Banks, DFID, SIDBI, BIRD, Microsave, CRIF High Mark, and provided the updates on the Microfinance lending & its channels viz. SHG, JLG in the progressive Uttar Pradesh (**Annexure 1**)

Shri Prakash kumar, GM, SIDBI welcomed the participants and briefly gave an update of the sector. He updated about the national level lenders forum meeting and SFMC department who is looking into micro credit. SIDBI Foundation for Micro Credit (SFMC) was launched by the Bank in January 1999 for channelizing funds to the poor in line with the success of pilot phase of Micro Credit Scheme. SFMC's mission is to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal and formal financial sector to provide micro finance services to the economically disadvantaged people, especially women. It has been providing a complete range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the sector. SFMC is also playing significant role in advocating appropriate policies and regulations and to act as a platform for exchange of information across the sector. He also added about the responsible finance initiatives , COCA & Rating mechanism. SIDBI has been playing a pro-active role in propagating Responsible Finance in the MFI sector. The major initiatives taken by SIDBI in the field of Responsible

Finance Practices are –

- Creation of a Lenders' Forum
- Setting up of India Microfinance Platform
- Setting up of the credit information bureaus
- Creating awareness about Clients' Protection Practices
- Facilitating Development of a common code of conduct for the MFIs and ensuring adherence thereof through COCA exercises accredited third party agencies.

MFIs are provided annual need based assistance. One of the unique features of the scheme is the comprehensive Capacity Building Support being provided to the MFIs/ NGOs to expand their operations as well as to increase their efficiency. Customized financial support comprising of loans, capacity

building grant as well as equity/ quasi equity is being provided to the client institutions.

Code of Conduct (COCA)- SIDBI is actively involved in development of a Code of Conduct Assessment Tool, which applies to providing credit services, recovery of credit, collection of thrift etc, for MFIs to assess their degree of adherence to the voluntary microfinance Code of Conduct formulated by the MFIs. 62 COCA of MFIs have since been completed and reports of 56 of them have been hosted on SIDBI website. This is done by independent agencies.

Rating of MFIs- To meet the requirements of the revised dispensation which called for selection of suitable micro finance intermediaries which could be trusted with bulk assistance without collateral constraints, Capacity Assessment Rating [CAR] was introduced by SFMC as a supplementary tool to assess the risk perception. On SFMC's initiative, rating of MFIs was started by five agencies. With the passage of time, and ripening of the sector, most of the informal NGOs have transformed into formal NBFCs. However, rating of MFIs has become a pre requisite for getting assistance from the banks and financial institutions.

Loan portfolio audit- An LPA provides an assessment of the risks inherent in a financial institution's portfolio and the controls the MFI uses to manage them. LPAs are therefore extremely useful for investors seeking a more detailed understanding of the key asset of the MFIs in which they placing their money (debt or equity). But, well conducted, LPAs provide immensely valuable information for the MFIs too. LPA has assisted MFIs to precisely identify the root cause of problems by detecting and investigating real cases such as: a) disbursement of loans without necessary approvals and in violation of the approval limits; b) not tracking and using credit history for making credit decisions; c) approving loans in spite of poor group ratings and d) disbursing parallel loans to the same group. The MFIs found that that they could use the real evidence of the problems and fine tune their internal controls to make their systems water tight.

Ms. Ragini Chowdhary updated the forum members who were new about the PSIG Project. PSIG is expected to leverage private sector financial and technical resources to reach up to 12 million direct and indirect Programme participants in 4 states of UP, MP, Bihar and Odisha. The programme duration is 6 year starting from April 2012-March 2018, extendable upto 1 year i.e. March 2019. The overall objective of the Policy output of the PSIG programme is to facilitate Policy and institutional environment that encourages increased financial inclusion by way of provision of financial services to poor people in a responsible and convergent manner. A need was felt for such regional level lenders forum to see better coordination amongst MFI and banks who are lending at State level. Post 2010 the MFI sector in UP was at the lowest point and PSIG started and worked towards creating a environment and facilitating them for growth. . In UP the growth is picking fast at 60-70% and left behind Andhra crisis. Highmark was brought to do a study on 4 states to assess the status of MFI industry and their reporting to credit bureau.

PRESENTATIONS ON SECTOR UPDATES:-

Sector overview- Radhika Agashe- ACCESS ASSIST: - The presentation had recent regulatory developments in the industry revision in guidelines for the NBFC MFI's (April 2015), NBFC-MFIs allowed as BCs of banks (June 2014), MUDRA was launched on 8th of April, 2015 with a corpus of Rs. 20, 000 crore and a credit guarantee corpus of Rs. 3, 000 crore (April 2015), Bandhan, India's largest microfinance institution, became a full-fledged bank with 501 branches, 2022 service centres and 50 ATMs across 24 states (August 2015), 8 out of 10 entities granted Small Bank license are MFIs (September, 2015). Utkarsh Microfinance a UP based MFI also has been awarded the license of small banks. Besides this the presentation represented data on Micro finance performance YOY growth 2014-15 in terms of GLP, branches, employees etc, growth of MBFC – MFI's and nonprofit MFIs and increase in geographical outreach, flow of funds to MFI's and the status of securitization/ asset sale in the last few years. Uttar Pradesh stands at 5th position in the top 10 states under amount of loan disbursed till April 2015. The presentation emphasized on continued skew of funding from banks to MFI's and the need to develop a common platform for banks to look at MFI requirements and guide them in operations governance & long term sustainability.

Date from Credit bureau, Subhrangshu Chattopadhyay- High Mark: - Credit bureau can provide customized portfolio dashboard along with aggregated borrower level data. Portfolio management practices are the major key which can help MFI's to grow. The presentation focused on major changes over the last 18 months focusing on key performance indicators i.e. loan outstanding & portfolio at risk and an increase in the average ticket size of lending was observed. Highmark showed the portfolio outstanding in terms of Uttar Pradesh which stood at 33 Taluks (tehsil) having outstanding more than 40 cr. 32 lakhs of loan has been disbursed in the last 12 months in 20 Taluks. As per the credit bureau report Agra, Lalitpur & Raibareilly have high NPA level in UP. The data also spoke of penetration 10 Taluks in UP have penetration of only 20% and out of this 33% of loans in the last 12 months have been into top 20 penetrated Taluks.

COCA assessment for the Micro Finance Sector- Akhilesh Singh- Microsave- During and after Andhra Pradesh crisis in year 2010, MFIs were accused for various charges such as high interest rate, high handed recovery approach, over indebtedness and lack of transparency in pricing . As a result RBI issued fare practice code for NBFC MFIs and subsequently Sa-Dhan and MFIN developed a Code of Conduct (COC) for Microfinance Institutions. SIDBI is supporting institutionalisation of COC by way of assessment of compliance to COC by MFIs in India. The objectives were to generate learning through insights that were gleaned from the sector, to streamline the future format of COCA reports and to reveal the overall lessons that could be learned from these individual assessments. The study conducted by Microsave had following observations based on various parameters:-

- **Integrating social values into operations-** MFIs scored an average rating of 77 %. There is a need to sensitise board members to the importance of practising the Code of Conduct across all institutional functions, and monitoring compliance with it
- **Credit process and policies-** MFIs scored an average of 76 %. The objective of scoring MFIs on this indicator was to see how well MFIs are doing in terms of focusing on the 'bottom of the

pyramid' while avoiding unnecessary competition and over indebtedness. MFIs are doing fairly well on the parameters related to area selection, client selection, and loan appraisal. However, assessment of clients' capacity to repay is an area that needs to be strengthened.

- **Human Capital-** MFIs fared with an average score of 81%. MFIs have understood the importance of staff training and have institutionalised systems of orientation training, on-the-job training, and refresher training for their staff. A few MFIs also conduct dedicated training on the Code of Conduct for their staff. The COCA teams did not come across any complaints related to staff behaviour during the course of the study
- **Transparency and fairness-** MFIs fared well with an average score of 82 %. MFIs keep client data confidential - they generally have separate sections in loan application forms to obtain clients' consent to share their information with credit bureaus and insurance companies. In the case of an automated Management Information System, data access is password protected. About one-third of MFIs have system to record actions taken, in response to customer complaints. This is certainly a 'best practice' that needs to be propagated across the sector.
- **Compliance with RBI Guidelines-** While 94% MFIs have been complying with the guidelines on qualifying assets, and about 89% have been providing collateral-free loans, however there are still some MFIs that accept collateral in one form or another.

Discussion Points:-

- Banks can insist from non NBFC MFIs for credit bureau reporting- Bankers unanimously agreed on Credit bureau reporting and the database of credit bureau can help them with any real time information required and laid thrust on that the same should be done by all the MFIs.
- Identify under penetrated areas (district/ taluka) at lender forum level and banks can push MFIs to lend in these areas- The bankers can identify and ask the MFIs to lend in areas for financial inclusion and growth of the people. In UP alone there are a total 305 tehsils.
- Banks may be the third lender for some clients.
- CoCA assessment should be given due consideration by banks in loan appraisal of MFIs- to minimise the risk & assess the strength of MFI for common goals.
- Few bankers raised issues on lack of documentation by MFIs. To which SIDBI assured will take relevant steps.
- The bankers present though are into MFI lending were not at regional level direct lending to MFIs but at HO level. The Bankers were more active on SHG bank linkage.
- All the bankers agreed on sharing their data with CIBIL.
- Bankers were not very keen on lending to MFIs despite that UP is having a regional level some said policy related issues.
- The bankers though advocated that responsible finance and code of conduct will bring in more discipline amongst MFIs and will help them to follow the guidelines laid by the regulators.

Vote of Thanks- Vote of thanks was given Mr. U C Gaur expressing his gratitude to all the participants for their presentations & discussions and shared that SIDBI and ASSESS ASSIST will stay in touch further to take the findings of the meeting forward.

ANNEXURE I

Sno	Name	Designation	Organization
1	Mr. S S Gupta	AGM	Allahbad bank
2	Arunendra Singh	Sr. Manager	Oriental Bank of Commerce
3	Akhilesh kumar Singh	Sr. Manager	Microsave
4	Ankur Singh	Assitant manager	Bhartiya Mahila Bank
5	Moti Lal	Sr. Manager	Union Bank of India
6	Mrinal Pant	Regional Coordinator	MFIN
7	Subhrangshu Chattopadhyay	Vice President	Crif High Mark
8	A K Palit	Regional manager	Syndicate Bank
9	Satish Kumar	Manager	Syndicate Bank
10	G C Bannerjee	AGM	State Bank of India
11	Jalendra Singh	Sr. Manager	Indian Bank
12	S J Kannaujia	Sr. Manager	Punjab National Bank
13	Vinay Kumar	Manager SIDBI	SIDBI
14	Amar Gupta	Assitant manager	SIDBI
15	Utpal Chakroborty	State Director	PSIG-UP-SIDBI
16	Vipin Sharma	CEO	ACCESS
17	Radhika Aghashe	ED	ACCESS ASSIST
18	Prakash Kumar	GM	SIDBI
19	U C Gaur		SIDBI
20	Vaibhav Mishra	Regional Coordinator	IDBI Bank
21	K N Mann	DGM	Bank of India
22	A K Srivastava	DGM - FM	BIRD
23	Priyanka Pathak	Manager UP	ACCESS ASSIST
24	Mohammad Azhar	Sr. Project Coordinator	ACCESS ASSIST