

Regional Lenders' Forum-Odisha

Organized under the PSIG Initiatives in Odisha

Date: 5th November, 2015

Venue: SIDBI International Training Institute (SITI)

Bhubaneswar, Odisha

Summary of Proceedings

1. Introduction:

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 microfinance service providers including MFIs in India have traditionally come by way of debt, equity financing from donors, investors, bank loans and savings deposits from clients, especially for Cooperatives. In the initial years of development, MFIs were essentially an extension of the formal banking channel led by the SHG-bank linkage program. 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, to fulfill their priority sector targets. But unfortunately the crisis in 2010-11 affected the growth of the microfinance sector in the country. 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. Several factors like greater clarity from the Reserve Bank of India's guidelines, deeper penetration of credit bureaus and increasing use of technology to improve collections have further helped in achieving the current pace of growth in India's MFI sector. 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.

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. A series of Lenders' Forum meetings were held. Based on the discussions and feedback received from the participants in one of its Forum meetings, it was decided that the "Regional Lenders' Forums" should be initiated to deliberate on operational and field level issues while the National Forum should focus on strategic and sector level priorities. Regional lenders' forums are seen to be particularly significant in catalyzing fund flow to MFIs from public sector banks, where lending decisions are decentralized.

2. Regional Lenders' Forum-Odisha:

SIDBI continues to facilitate the lenders' forum under its PSIG programme, being implemented currently in four poorest states such as Bihar, MP, UP and Odisha. ACCES-ASSIST has been assigned to coordinate the policy component of PSIG in the above states and also at the national level. To take it forward ACCESS-ASSIST organized a state level Lenders Forum on 5th November 2015 under the PSIG initiatives in Odisha at SIDBI International Training Institute (SITI), Bhubaneswar.

3. Objective of the Lenders' Forum in Odisha: The main objectives of the lenders' forum were;

- 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 a professional secretariat)

The participants for this important meet included representatives from the State Bank of India, Corporation Bank, Bank of India, Indian Bank, DCB; Rating Agency - Care Ratings; High Mark Credit Bureau, Dia Vikas and MFIs – AMPL, SMCS, SMSL, GUFSP, Sambandh Finserve, Mahashakti Foundation and Adhikar Microfinance. A list of participants which include officials from SIDBI and Access-Assist is provided in the **Annexure**.

4. Microfinance Scenario in the State

The state of Odisha emerged as a potential microfinance market in the region and projected a rich diversity of microfinance models, practices, tools and products etc. Delivered mainly through MFI channel and using SHG, JLG and individual lending methodologies, microfinance has been able to reach out to a large section of people including women in the state. The role of MFIs in providing the financial services for the poor has been quite encouraging, especially in terms of outreach and service delivery at their door steps. Altogether 17 MFIs including 14 NBFC-MFIs operate currently in Odisha and offer diversified financial services to people. The NBFC-MFIs have been taking lead in terms of expanded outreach and portfolio growth in the state. All the 14 NBFC-MFIs operating in the state have collectively reached out to 16, 73,288 clients-borrowers with the gross loan portfolio of INR 19.30 billion (*MFIN Micrometer-May'2015*). Out of 17 MFIs, there are also 7 home grown organizations such as Annapurna Microfinance Pvt Ltd, Sambandh FinServe Pvt Ltd, GU Financial Services Pvt Ltd, Adhikar Microfinance Pvt Ltd, Swayanshree Micro Credit Services, Mahashakti Foundation and Swayamshree Mahila Samabaya Pvt Ltd. All these organizations have been engaged actively in providing financial services to clients in their respective operational areas.

No doubt that the progress so far is encouraging, but there are still a few challenges. . The state based smaller MFIs face the scarcity of loan funds. Due to high cost of borrowing from private investors and with increased operational expenses incurred while delivering the services at the door step of the clients, their growth and sustainability get affected. Technological up-gradation brings in financial burden. Besides, recent chit fund cases in the sector have made the situation even worse; so some of them feel constrained while diversifying the portfolio and services.

5. Discussion Points:

The discussion started with a presentation from Access-Assist, which explained all about the recent developments in the micro finance sector. The developments put lights on the revision in RBI guidelines for NBFC-NFIs, MFIN/Sa-Dhan being allowed to work as an SRO for the sector, recent launch of MUDRA bank, more importantly 8 out of 10 entities that have been granted licenses for Small Finance Banks are MFIs among others. Bandhan, India's largest microfinance institution, becoming a full-fledged bank with 501 branches, 2022 service centres and 50 ATMs across 24 states (August 2015) has provided a big boost and also credibility to the sector. There is an increase in private equity investment in the MFIs across India which will bring in institutional stability in the coming years. Besides this the presentation represented data on Micro finance performance YOY growth 2014-15 in terms of GLP, branches, employees etc, growth of NBFC-

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. 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.

Specific to the MFIs in Odisha, particularly the homegrown institutions in the state are fairly doing well in their respective microfinance programmes. Of late many of them have been able to attract banks to on-lend them. Over the years they have diversified their portfolio with the introduction of different client-centric and customised products. Other than credit they are able to add micro-insurance, micro-pension and remittance etc into their package of services. SIDBI through its PSIG programme too is also supporting the MFIs by availing both financial as well as technical assistance. With the inclusion of credit guarantee and equity support from SIDBI-PSIG, the bankers are positively responding and there has been substantial increase in the lending from public sector banks in recent months to the MFIs in Odisha. Banks like Canara Bank, IDBI, Indian Overseas Bank, Oriental Bank of Commerce, State Bank of India, Corporation Bank, Bank of Baroda etc are the prominent public sector banks that are positively extending credit support to the sector. On the other hand from the private sector, YES Bank, DCB, Axis Bank, ICICI Bank etc have also started looking positively to on-lend to the MFIs in the sector, through both bulk lending and BC financing. The trend needs to be maintained and accelerated further to meet the credit requirements of the sector in the state.

The High Mark Credit Bureau System shared their experience of their credit analytics by doing close research on the data it usually get from their partnered MFIs. The report says there are very few instances (less than 0.2% of active borrowers who have associations with more than two MFIs – this shows the greater compliance with the RBI guidelines on responsible lending. Besides the more resourceful or economically advanced areas get the more of micro loans which is about 70% of the total portfolio outstanding – this gives a grey picture as noble objective of the microfinance is to reach the unreached and fund the unfunded or the unbanked.

Rating of MFI is considered as an important exercise in the process. It has become a pre requisite for getting assistance from the banks and financial institutions. With SIDBI- SFMC's initiative, rating of MFIs was started by five agencies. The representative from CARE Ratings explained various parameters that they use to assess the performance and risk level of an MFI. He also responded to the queries raised by the participants-both bankers and MFIs.

Social Performance management (SPM) contributes equally for the success of microfinance programme. The MFIs are expected to balance both the social and financial aspects while delivering their financial services for the poor and low income group of people. Microfinance Investors, especially the social investors give adequate attention on the social and development aspect of the programme and support to MFIs accordingly. Emphasizing on social aspect, the representative from Dia Vikas shared their approach and experience so far on dealing with more than 25 MFIs in the country.

SIDBI has been playing a pro-active role in propagating Responsible Finance in the MFI sector. Some of its initiatives in the field of Responsible Finance Practices include 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.

All the Bankers present in the meeting also shared experience especially on their exposure to microfinance (on-lending) and engagements with some of the MFIs operating in the state. The participants from MFIs too put forth their views in the entire deliberations. The important points discussed during the meeting include:

- **Sensitization of Bankers:** There is a felt need to organize sensitization/exposure programs on MFI operations and appraisal process, including information about sectoral efforts and agencies (MIX portal, Social rating etc.)
- The above sensitization of bankers can be taken one at a time i.e. targeting one bank and specific senior officials for the exposure program can be better effective.
- **Data Sharing:** The bankers need to be periodically updated about the rating reports of MFIs. Here the important thing is to decide which kind of data to be given to banks. Current system of microfinance edit doesn't give a holistic view of the organization. It shows only the analysis of the financial part. Which can't only be taken into account, there are other areas like board involvement, governance & HR practices, responsible finance practices etc need to be covered in the report.
- There is a growing portfolio of microfinance in the state; this progress has never been noticed at the statutory bankers' level. So concerted efforts can be made in order to share the MFI loan outstanding at the SLBC agenda.
- **Rating of MFIs:** Currently they are helping a lot to the microfinance sector but there is a scope to do multiple or multi-level data analysis so that bankers can refer those reports for taking lending decisions. There is a need to get feedbacks of more than one rating agencies so that the exact position of an MFI from different aspects like finance, HR, portfolio management, client management etc.
- **Bank Level Lending:** Bankers briefed that some of the proposal depending upon the amount, some are reviewed at the local level and in coordination with the Circle Office of the bank the lending to certain MFI is decided upon.
- **Data Availability:** Sometimes bankers find it difficult to find data other than CRA, for example their market position, where they stand among all the peers etc. Besides there are many sources to get data about MFIs - like MFIN, MIX Market, Rating Agencies, Credit Bureau etc, the need is just to develop the awareness level and mining the data into one location.
- There can be a consortium of lenders to get information about any MFI and its earlier track record. This will help a lot to the bankers those are new to the microfinance sector and want to expand the PSL lending by way of financial support to women SHGs through the MFIs.
- **Bank Loan Management:** How the banks' objective of serving the society gets fulfilled by extending lending support to MFIs, this was one of the prominent and most bankers were eager to know about it. The MFIs responded the query: it is more of a mutual discussion between the MFI and the bank on which areas to penetrate, the area also can be selected on the basis of MSME location or geographical location and that all depend on the capacity as well as outreach of the particular MFI.

6. Suggestions and Way Forward:

At the end of the meeting all the participants unequivocally shared the view that **PSIG-SIDBI** can try to organize such meetings between the bankers as well as MFIs in a periodical manner. This will facilitate in understanding the level of awareness among both the parties. Besides PSIG can facilitate in developing a resource centre with all available MF industry reports, do data analysis and share them with banks as well as other lenders/stakeholders. Some of the suggestions made in the meeting include;

- Orientation for Bankers on MFI Assessment processes
- Holding Bankers-MFIs interface meeting on a periodically
- Institutionalize Lenders Forum meeting with the participation of Zonal Heads
- Compiling and sharing of MFIs data with Banks and other Financial Institutions (Pitch Book)

7. Vote of Thanks- At the end a vote of thanks was given Mr. Rajesh Kumar expressing his gratitude to all the participants for their presentations & discussions and shared that SIDBI and ASSESS ASSIST would take follow-up actions on the specific decisions reached in the meeting.

Annexure – List of Participants

Sl No	Name	Organization
1	Mr. U. C. Gaur, GM	SIDBI
2	Mr. Ashok R. Samal, Retd. GM	SIDBI
3	Mr. Sankar Bachar, Chief Manager	Bank of India
4	Mr. Jogajeeban Sahoo	Indian Bank
5.	Mr. Mr. M. Panda, Sr. Manager	Canara Bank
6	Mr. Sudhir Pattanaik, Sr. Manager	Corporation Bank
7	Ms. Arpita Kundu, Microfinance Mrkt. Officer	State Bank of India
8.	Mr. Saurav Panda	State Bank of India
9.	Mr. Arun P. Sahoo, Sr. Manager	YES Bank
10.	Mr. J. K. Pradhan	Development Credit Bank (DCB)
11.	Mr. Raman Vig	CRIF High Mark
12.	Mr. Soumen Das, Dy. Manager	Care Ratings
13.	Mr. Ankit Maheswari	Nimbus Consulting
14.	Mr. Sanjib Puhan	ACCION
15.	Mr. Saneesh Singh, MD	DiaVikas Capital
16.	Mr. Parshuram Nayak, WTD	SMCS
17.	Mr. Dibakar Moharana, CFO	SMCS
19.	Ms. Nayana Mohanty, CEO	SMSL
20.	Mr. Bijay	SMSL
21.	Mr. Satyajit Das, CFO	AMPL
22.	Mr. Livinus Kindo, Chairman	Sambandh Finserve
23.	Mr. Deepak Kindo, MD	Sambandh Finserve
24	Mr. James Raj, COO	Sambandh Finserve
25	Mr. Neelanchal Pradhan, MD	GUFSP
26	Mr. Mohan Baliyarsingh, Director	Mahashakti Foundation
27	Mr. Jyoti Ranjan Mohapatra, Director-Admn	Mahashakti Foundation
28	Mr. Md. N. Amin, MD	Adhikar Microfinance
29	Mr. Umesh Jena, Head-Operations	Adhikar Microfinance
30	Mr. Rajesh Kumar, State Director	PSIG-SIDBI
31	Mr. Pravanjan Mohapatra, Theme Leader	PSIG-SIDBI
32	Mr. Susanta Sahu, State Manager	PSIG-SIDBI
33	Mr. Vipin Sharma, CEO	ACCESS
34	Ms. Radhika Agashe, ED	Access-Assist
35	Mr. Amulya Mohanty, VP	ACCESS
36	Mr. Sudipto Saha, Associate Director	ACCESS
37	Mr. Narendra Nayak, Associate Director	Access-Assist
38	Mr. Arjun Pagal, Sr. Project Coordinator	Access-Assist
39	Ms. Sayantani Mukherjee, Project Coordinator	Access-Assist