

# 2<sup>nd</sup> State level Lenders' Forum-Odisha

Organized under the PSIG Initiatives in Odisha

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

Venue: Hotel Mayfair Convention Hall

Bhubaneswar, Odisha

## Summary of Proceedings

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**1. Introduction:** With Financial Inclusion emerging as a major policy component in the country, microfinance is seen as a promising tool to reach out to the unbanked populations. 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. Over the past three years, MFIs have raised Rs. 2,000 crore as equity and Rs 24,000 crore as additional debt 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. 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.

**SIDBI Initiatives:** 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.

ACCESS-ASSIST is currently serving as a Secretariat for lenders' forum on behalf of SIDBI. A total of 10 National lenders' Forum Meetings have been organized so far with the last meeting held in November, 2015. Bankers from both Public sector banks and private sector along with investors have been participating in the meetings. As a follow up to the last lenders' forum meet, a working group meeting consisting of 6 Banks (SBI, IndusInd, ICICI, IDBI, RBL & SIDBI) has been commissioned recently which had its first meeting in Feb, 2016. This will further be followed by the creation of an e-group to deliberate on prominent issues in the sector

**Regional Lender's Forum:** Regional lenders' forums are seen to be particularly significant in catalyzing fund flow to MFIs from public sector banks, where lending decisions are decentralized. 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. Based on the above suggestion, the 1st State level Lenders' Forum under PSIG initiatives was organized on 5<sup>th</sup> Nov'2015 in Odisha. A few action points including 'organizing an Orientation programme for Bankers on MFI Assessment processes, conducting bankers' exposure to MFIs and compiling and sharing of MFIs data with Banks and other stakeholders' were made and necessary follow-up actions were taken on that.

## 2. State level Lenders' Forum Meeting -Odisha:

Taking the initiative forward, the 2<sup>nd</sup> Regional/State level Lenders' Forum meeting in ODISHA was held at Hotel Mayfair, Bhubaneswar on March 2, 2016. Like the inception meeting the second lenders' forum meeting also had participation from most of the banks operating in the state. A three member's team from RBI also was present for the lenders forum meeting. The meeting was organized with the following objectives.

### Objective of the Lenders' Forum in Odisha:

- To help bankers familiarize with the needs of MFIs and update them on the progress as well as issues of the sector at the state level
- To understand the key expectations from bankers on MFIs and their preparedness for bank lending
- To identify issues related to MFI lending and improve that further for attracting increased number of lenders/investors for the sector.
- To strengthen cooperation among the existing and potential bankers/lenders to MFIs and leverage that for enhanced lending to the microfinance sector in the state.

**3. 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 financial services to people.

Out of 17 there are also 07 home grown organizations such as Annapurna Microfinance Pvt Ltd, Sambandh Finserve Pvt Ltd, GU Financial Service Pvt Ltd, Adhikar Microfinance Pvt Ltd, Swayanshree Micro Credit Services, Mahashakti Foundation and Swayamshree Mahila Samabaya Samiti Ltd. who are providing financial services to clients. Collectively these 07 home grown MFIs have been able to cover all districts of Odisha, with a portfolio of Rs. 617 crore and 5.2 lacs of active borrowers as on September'2015 (IF News Bulletin-Odisha, Dec'2015). 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 17.1 lakhs clients-borrowers with current gross loan portfolio of INR 2246 crores as on Sept 2015 (MFIN Micrometer, Dec'2015).

**Key Challenges:** However, in spite of this positive growth, challenges still remain in the microfinance sector of the state. The sector has yet to fully address the issues of scale and depth in the state. Regional skew in terms of program coverage is experienced. Effective diversification of products and services is still needed; as most MFIs offer credit and credit linked insurance service only. Limited access to and availability of a diversified source of funding is one of the constraints in pursuing expansion and scaling up for many MFIs. Unhealthy growth of numerous chit funds and ponzy entities that allure innocent members and cheat them has been posing a great challenge for all MFIs operating in the state.

#### 4. Discussion Points:

The forum was opened and addressed by Ms. Ragini Choudhury, Private Sector Advisor, DFID who explained about the rationale, objective behind the initiative. The lenders forum established under the PSIG programme seeks to enhance and increase microfinance lending in the state. The forum tends to bring together investors and MFIs to discuss on several issues and concepts in order to create an enabling environment for MFI lending.

Mr. U.C Gaur, General Manager, PSIG-SIDBI shared about the national level initiatives on lenders' forum and how the meeting further helps in understanding the state specific needs and problems in MFI lending.

Mr. Narendra Nayak, ASSIST presented the overview on the MFI lending sector. Apart from highlight overall updates/potential on the same the presentation also tried to focus on Odisha specific needs and issues in terms of MFI lending. He also updated the house on the action taken so far since the 1<sup>st</sup> lenders' forum meeting in Nov'2015. Based on the suggestion, an Orientation-cum-Exposure programme for Bankers on MFI Appraisal was organized on 27th January'2016 at SIDBI International Training Centre, Bhubaneswar. The participating bankers were also taken for an exposure programme to SMCS-one of the leading MFIs working in Odisha. The MFI data-compiled as Pitch Book was shared with banks and other stakeholders.

**MFIs Reporting to Credit Bureau:** The High Mark Credit Bureau representative, Mr. MD Yakub was present during the meeting to explain about its role and how banks could use their services in terms of microfinance lending. The MFIs operating in Odisha are reporting to 1 or 2 Credit Bureau systems including to High Mark & EquiFax. High Mark provided following information: There are 91% active borrowers in 20 districts out of total 30 districts in Odisha. He also reported that, 93% outstanding in 20 districts out of total 30 districts in the State. The presentation shows a 24% of credit off-take in top 20 talukas. There are not much microfinance activities in 10 districts of Odisha. Cuttack, Khurda and Sundergarh districts of Odisha have more non compliant borrowers.

Responding to the presentation on credit bureau, the bankers present in the meeting raised several queries including on the process of data collection, analysis, and reports generation and sharing. They also asked about the cost and frequency of the reports, coverage of SHG data etc which were responded well by the High Mark representative. The MFIs also emphasized on the role and advantages of credit bureaus. They explained how their organizations are actively involved in checking data and updating the same on credit bureau platforms. Sharing of data with credit bureau has helped them strategize and analyze their lending patterns in an effective manner.

**Code of Conduct & MFIs:** The Indian microfinance is considered to be the largest in the world. Over the years the sector was growing well, but experienced a downtrend in 2010 by the crisis in AP. The crisis not only seriously affected the growth of microfinance in AP but also impacted other states. MFIs' approach and service delivery mechanism came under lens and funds flow to MFIs got affected across India. Banks and investors viewed it risky to on-lend MFIs. Along with good governance, transparency, accountability, fair practices, ethical behaviours, clients' protections etc were stressed, especially by the regulatory bodies to be practiced in the sector.

RBI came out with the concept of Self-Regulatory Organization (SRO) and approved MFIN & Sa-Dhan to act as SROs with key mandates such as Industry Surveillance, Grievance Redressal, Dispute Resolution, Data Analytics, and Training & Knowledge Dissemination. To strengthen the process further both MFIN & Sa-Dhan jointly developed the Code of Conduct for MFIs and advised them to adopt that while offering financial services to clients. Avoiding Over indebtedness, Maintaining Transparency, Adopting Appropriate Interaction

& Collection Practices, ensuring KYC, data sharing with credit bureau, integrating credit plus services such as health, financial literacy, vocational training, etc have been some of the key aspects which the member MFIs are required to adhere to and ensure positively in their respective microfinance operations.

Among other support organizations, DFID & SIDBI through PSIG initiatives started strengthening responsible financing in the sector. With an intention to promote Responsible Finance, SIDBI commissioned a series of Code of Conduct Assessments for MFIs for better compliance along with other processes such as Portfolio Audits, Process Mappings, Social Performance assessments etc. SIDBI-PSIG has made it mandatory for all MFIs including its partners to undergo the Code of Conduct Assessment in every two years in order to be eligible for any assistance from it.

**Insights from RBI-Regional Office:** The RBI team present in the meeting participated effectively in the deliberations of the lenders' forum meeting. Mr. Sreedhara Behera, GM (RPCD) RBI, during the discussion gave a brief background about the status of Odisha in terms of financial inclusion. More than 4500 gram panchayats do not have bank branches in the state and as per statistical data even though around 88% of Villages in Odisha are covered by BC channels, however many are not very efficient. Certainly, MFIs are playing a major role in terms of offering financial services for the clients at their door steps in the state. The deliberations and action points made in such lenders forum will further improve MFI lending in Odisha and help expand financial inclusion in the state. The team advised both the banks and MFIs to work in a coordinated manner to reach out increased number of poor clients in the state through diversified and affordable financial services.

## 5. Suggestions and Way Forward:

- **Sensitization of Bankers:** There is a felt need to organize additional sensitization/exposure programs for bankers on MFI operations and appraisal process. The bankers those who missed the last orientation programme can participate and get the inputs on the process.
- **Sharing of key data with Banks:** The bankers need to be periodically updated about the portfolio report, rating reports of MFIs. As there is a growing portfolio of microfinance in the state; this progress has never been discussed/ highlighted at the state level banker's forum. So concerted efforts can be made in order to share the MFIs' outreach and loan outstanding at the SLBC agenda.
- **Advocacy with Banks HQ:** Bankers briefed that some of the proposal depending upon the amount are reviewed at the local level and in coordination with the Circle Office for lending to MFIs. As the approval of HQ is required for some other proposals, especially the bigger ones (amounting >5 cr), the bankers suggested to do advocacy with their respective HQs which will facilitate the process faster.
- **Data Availability:** Sometimes bankers find it difficult to find data other than CRA, like market position. Although data is available from various agencies like MFIN, MIX, credit bureau, efforts should be invested to make it available at one platform and also educate bankers about it.
- **Bankers-MFIs Interface:** The participants in the meeting strongly suggested for having frequent interface between bankers and MFIs to better understand each other's priorities and issues and work together for the betterment of the poor clients. They also preferred to meet and discuss together in the subsequent lenders' forums organized under the PSIG initiatives in Odisha, on a quarterly basis.

**6. Vote of Thanks:** At the end a vote of thanks was given Mr. Rajesh Kumar, State Director, PSIG, Odisha 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       | Shreedhara Behera       | GM (RPCD)RBI-Regional Office  |
| 2       | M.M. Dash               | Manager, RBI- Regional Office |
| 3       | Tapan Kumar             | Manager, RBI- Regional Office |
| 4       | Biswanath Lal           | LDM, SBI, Khurdha             |
| 5       | Praveen Kumar           | AVP, MFIN                     |
| 6       | M.D Yakub               | High Mark                     |
| 7       | A.R. Samal              | Member-SFIF                   |
| 8       | Malay Kumar Bal         | HDFC Bank                     |
| 9       | Sunil Kumar Sahoo       | United Bank of India          |
| 10      | Pravakar JhapatSingh    | Bank of Baroda                |
| 11      | L. Panda                | Indian Bank                   |
| 12      | Sambit Kumar Das        | Central Bank of India         |
| 13      | Sukomal Saha            | Union Bank of India           |
| 14      | Ashok Pattnaik          | PNB Circle                    |
| 15      | Nilachal Pradhan        | GU Financial Services         |
| 16      | A.C. Sahoo              | Canara Bank                   |
| 17      | A.K. Nanda              | Syndicate Bank                |
| 18      | Kumar Vaibhav           | AMPL                          |
| 19      | Bichitrananda Pattnaik  | SBI                           |
| 20      | Saurav Panda            | SBI                           |
| 21      | Mohan Kumar Baliarsingh | Consultant                    |
| 22      | Arjun Pagal             | AMPL                          |
| 23      | Arun Prasad Sahoo       | YES Bank                      |
| 24      | Nilakantha Biswal       | Odisha Gramya Bank            |
| 25      | A.K. Tripathy           | Andhra Bank                   |
| 26      | Md. M Amin              | Adhikar                       |
| 27      | D. Maharana             | SMCS                          |
| 28      | Ragini Chaudhury        | Advisor, DFID                 |
| 29      | U.C Gaur                | GM, PSIG-SIDBI, New Delhi     |
| 30      | Rajesh Kumar            | SD,PSIG-SIDBI                 |
| 31      | Prabhanjan Mohapatra    | TL, M&E,PSIG-SIDBI            |
| 32      | Susanta Kumar Sahoo     | SM,PSIG-SIDBI                 |
| 33      | Rashmiranjan Swain      | ACCESS                        |
| 34      | Narendra Nayak          | ACCESS-ASSIST                 |
| 35      | Ankita Mohanty          | ACCESS-ASSIST                 |
| 36      | Syantani Mukherjee      | ACCESS-ASSIST                 |