

microfinance India SUMMIT



The Summit Bulletin

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Welcome to the 1st day of 10th Microfinance India Summit

Arvind Kumar, Joint Secretary, department of Financial Services releases State of the Sector Report



Excerpts from Dr. Tara Nair's Presentation

“Microfinance can become the formal form of financial inclusion...”

The growth in the MFI sector has taken a beating in 2010-13 section, as compared to 2006-09 section.

The decline of faith in the federated structure is one of the biggest reasons for the lack of rapid growth. The challenges that the microfinance sector face today are: Continuous client data monitoring and reporting is still not possible in the remote rural areas, hence the limitation of reach into the areas. Technological adoption and/or up gradation is still a few years away, curbing the possibility of a fast reach.

Current discourse: Promotion and encouragement of saving in the sector. More and more innovations with micro finance, creating more customer friendly products. Mitigating the gender gap, formation of the Bharatiya Mahila Bank is a big step towards it. Specialized banking institutions for small credit.

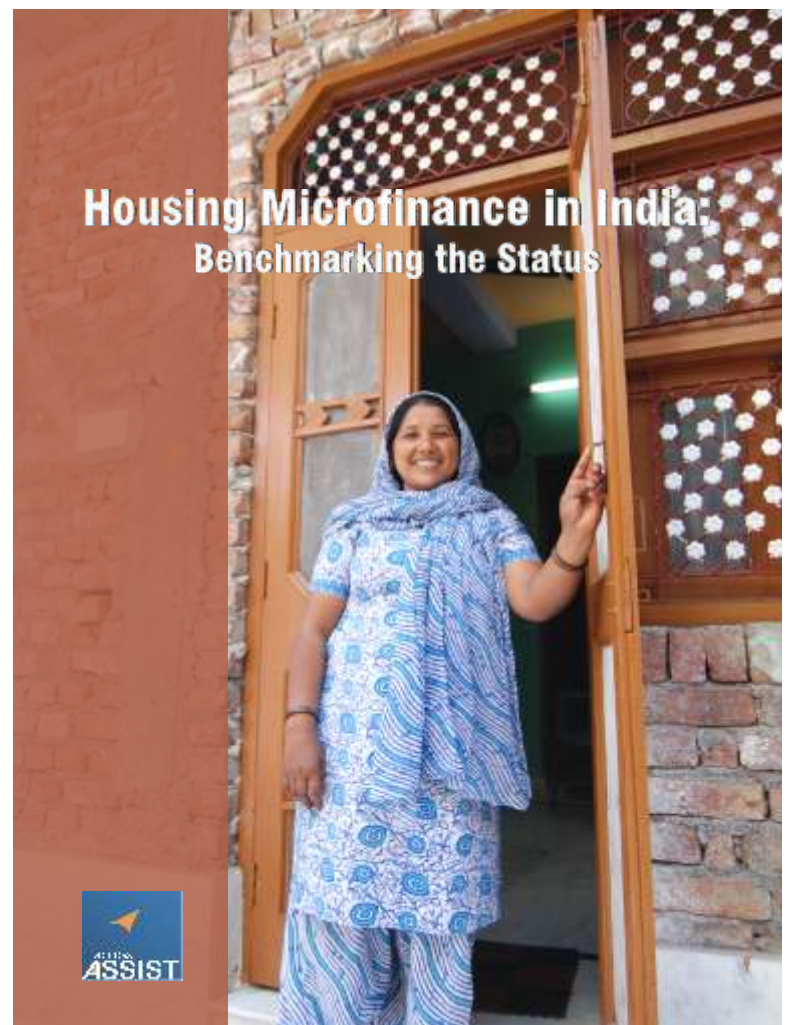
Big agenda for the coming years: Micro finance legislation formation, in accordance to the regulations and guidelines of the RBI. Bringing parity between different MFIs. Convergence of financial inclusion and micro finance, to stop the debate between them.

Housing Microfinance in India: Benchmarking the Status

Authored by Vibhu Arya
Founder, The Flat Pyramid.

The report concludes that there are several housing microfinance pilots initiated by MFIs across India, which proves the significant demand for housing microfinance. There is an urgent need for stakeholders like MFIs,

Donors, Funds and Specialists to come together and build a healthy eco-system for housing microfinance in India. The government and Reserve Bank of India need to do their bit by building an enabling regulatory environment for the housing microfinance sector. The evolving regulatory and policy environment in India can create an opportunity for financial institutions to play a more vibrant role.



Financial Inclusion: Vision 2020



Moderated by N Srinivasan, the panel was graced by Anurag Jain, Joint Secretary, Department of Financial Services, Ministry of Finance, Govt. of India; Aruna Sharma, Additional Chief Secretary and Development Commissioner, Panchayati Raj and Rural Development Department, Govt. of Madhya Pradesh; Alok Prasad, CEO, Microfinance Institutions Network (MFIN); Nilanjan Majumdar, Vice President and Head, Financial Inclusion, Axis Bank; M K Krishnaraj Prabhu, Regional Business Head, HDFC Bank.

The session opened with the much talked about need for infrastructure to enable financial inclusion and then the realization that banks are yet to recognize the role viability and success of financial inclusion as a business opportunity. Aruna Sharma highlighted the need for a paradigm shift from population coverage to geographical location, that essentially would mean taking banks to the remotest of places. The session thereafter revolved around the basic need for extending financial services optimally to customers in way that comes to their use for real.



Fund Flow to the Sector: Unclogging the Channels

The after lunch plenary session on Fund Flow to the Sector (microfinance) was moderated by Eric Savage, President, Unitus Capital. Speakers for the session were; R M Malla, Managing Director & CEO, PTC India Financial Services Limited (PFS); Brij Mohan, Chairman, Ananya Finance for Inclusive Growth; P N Vasudevan, Managing Director, Equitas Microfinance; Rajeev Ahuja, Head – Strategy, Ratnakar Bank, Srinivasan Nagarajan; Regional Director, South Asia, CDC India Advisors Pvt Ltd.

This session mostly revolved around the existing challenges in the microfinance sector and those that have been conquered. MFIs have become more client centric now, and this was widely appreciated and applauded. Stability of funding on one hand and social performance on the other were important points of discussion.

“One good MFI is worth 50,000 business correspondents” quoted Brij Mohan, Sector expert and winner of the Microfinance India Award for Contribution to the sector by an Individual.



Business Correspondence Model – Viability & Vision



a range of financial services and products, which is very important from the customers' viewpoint. We have deep experience in the BC space having worked intensively with Cashpor Micro Credit, a leading non-profit MFI, to transform from a credit only to a multi-product company providing saving services to more than 150,000 poor women in UP and Bihar with dormancy rates of less than 30%. Our experiences have been shared through a series of events and case studies available at our website www.grameenfoundation.in

In terms of policy changes, we think that the regulator should also allow entities (like NBFC-MFIs) which have deep experience in providing last mile access to financial services to become BCs. In addition, customer protection guidelines and detailed frameworks for communicating information about the financial products and services by the bank and BC need to be established. Lastly, the regulator should encourage use of technology to overcome practical and costly field problems like movement of KYC documents between BC and bank.

Chandni Ohri
Grameen Foundation

How optimistic are you about the prospects of the Business Correspondent (BC) Model in India? What are the policy level changes you would suggest to make these BCs viable and more effective?

At Grameen Foundation India, we are very optimistic about the prospects of the BC model. We believe that the model has the potential to provide last mile access in rural areas and to the poor in the country. The model allows for a single point of service for

How optimistic are you about the prospects of the Business Correspondent (BC) Model in India? What are the policy level changes you would suggest to make these BCs viable and more effective?

I am fully convinced that Business Correspondents (BCs) have an instrumental role to play in promoting “Inclusive Banking” in a sustainable manner and have excellent business prospects.

The need of the hour is to build an ecosystem by bringing various stakeholders, Technology Providers (Hardware, Software), Regulators, Govt. Banks, Insurance, Pension Funds, Mutual Funds, Agri-Business Companies etc. Further, this collaborative approach needs to be supported with an environment (legal/ regulatory/ business friendly) that is conducive for effective implementation of the Inclusive banking program.

While regulations for enabling financial inclusion have seemingly eased out, the following policy level changes would help

in improving the viability and making BCs more effective.

- (a) NBFCs, which have appropriate bandwidth/ net worth to be allowed to operate as BCs.
- (b) Banks to be given more freedom to constructively innovate/ experiment (Do away with SLBC intervention in village allocation etc.).
- (c) Govt./ RBI to come up with a sectoral low cost inter-operable technology using the Financial Inclusion Technology Fund.
- (d) Develop basic Infrastructure – Roads, Power and Connectivity etc.
- (e) Develop reliable KYC documents, which can be verified electronically.
- (f) Do away with Service tax and other stamp duties applicable during the course of the business.

Srinivas Bonam
Indusind Bank

Affordable housing in India- Interviews with experts

What are the opportunities for housing microfinance in India? How should the sector/MFIs respond and take advantage of this opportunity?



housing microfinance loans appropriate to the incremental housing needs of low-income households. In fact, the Microfinance India – State of the Sector report 2012 estimates the demand for housing microfinance to be to the tune of 1500 billion.

In Indian microfinance sector, group lending remains the dominant product, whereas Housing Microfinance (HMF) loans, with higher ticket sizes and longer repayment periods, are usually offered as individual loans, requiring more detailed cash flow analyses. In order to successfully design and sustainably deliver HMF products and services, MFIs need to make institutional adjustments - in absorptive capacity, building legal and technical know-how and investing in appropriate systems and processes.

Jennifer Isern
South Asia Regional Manager
Access to Finance Advisory
International Finance Corporation (IFC)

India has a housing shortage of around 69 million units, with more than 90% of this shortage in the low income groups. In addition as of 2009, only 55% of rural and 92% of urban households lived in 'Pucca' structures indicating vast potential for improving the condition of existing homes. The current housing finance market mainly offers larger-ticket and long-term mortgage loans, is highly underpenetrated at a mere 7.5% of GDP and does not cater to the vast population of lower income segments. In this scenario, microfinance, having successfully served this income segment till now, can become an innovative and sustainable delivery channel particularly to provide



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Housing shortage is a big concern in India and as per the latest government estimates, the housing shortages in India is around 70 Million residential units, out of which over

50 Million pertains to low income households. With Financial intermediaries/ institutions, hesitant to offer housing finance to low income communities, micro-housing is almost non-existent despite the presence of significant demand. Although the Indian microfinance sector is one of the most vibrant in the world, most to the MFIs do not offer Micro Housing product to their clients.

Housing Micro Finance is an huge opportunity in India with over 70% of the said requirement existing in rural area, MFIs can provide Housing Mico finance to its members and thereby improve the living environments for low-income households”

Ramchandra Vaidya
CEO MicroBuild India



Interviews with Experts

How, according to you should the sector respond and improve on the social performance side? A little advice.

To the extent feasible, harmonize the ways organizations are assessing and self-assessing their social performance. For instance, work, to align the Code of Conduct Assessments in the indicators that they use for measuring adherence to the code.

More investors and funders need to put their money where their 'mission' is and support and co-finance activities that improve social performance. They are absolutely integral in creating a supportive ecosystem and incentives for providers to improve their practices.

Align efforts for self-regulation with regulation, where possible.

Alexandra Rizzi

Deputy Director, SMART Campaign



What are the key challenges and lessons learnt while implementing Health initiatives in partnership with MFIs?

Microfinance practitioners are fully aware, that ill health and health catastrophes are a major concern for their clients, often impeding their ability to repay loans and thrive in their income generating activities. They have compelling business reasons to attend to their clients' health needs.

Committed practitioners are functioning as efficient and effective delivery systems for healthcare services for the very poor in remote areas; the barriers however, still exist. Microfinance institutions (MFIs) understandably fear the added costs that come with the integration of microfinance and health and the inability of their staff to take on what they perceive as competing tasks".

D.S.K. Rao

Regional Director for Asia-Pacific, Microcredit Summit Campaign



What are the possibilities and trade offs of leveraging technology for advancing financial inclusion in India?

The potential for banking correspondent-based digital financial services (DFS) to advance financial inclusion is very clear. An enabling policy and regulatory environment could see a significant increase in the convenience, accessibility and range of financial services available to the poor. Achieving financial inclusion in a diverse country like India will not be easy, but the massive Aadhaar-enabled direct benefit transfer (DBT) programme provides a tremendous platform and anchor product to do so and to drive adequate volumes to remunerate agents in the villages. India thus has a tremendous opportunity to ensure that every poor household has access to a high-quality banking access point. While the impressive growth in the number of agents is an important step forward, it is by no means adequate as most of the agents are still of very poor quality or dormant, thus damaging trust in an agent-based system for DBT distribution and financial inclusion. This needs immediate remedial action by policy/regulatory actors, as well as commercial players, to make a concerted push to resolve the remaining barriers – before the complete break-down in the agent system, and the loss of the trust of India's masses, become a lasting impediment.

Graham N Wright

MicroSave

Does empirical evidence support the claims of Microfinance? According to you, what should be the deliverable promises from an MFI?

1) The industry is still evolving and is in a state of flux, following the problems (over-lending, regulation, multiple borrowing, coercive collection, negative press, drying up of funds, etc.) afflicting the industry since 2010.

2) The effective range of products offered by most MFIs in India is extremely limited, at present.

3) Ideally, one needs to track changes in the lives of customers over an extended period of at least 7-10 years to try and measure the true impact on the lives of customers; If the dropout rate among MFI customers is in the region of 20% per year, then it is going to be difficult to track these customers beyond 5 years.

4) At present, the only plausible claims or deliverable promises an MFI in India can make are- enabling financial inclusion and contributing, in some measure, to an improvement in the lives and well-being of customers.

5) MFIs could have a greater impact than what they have at present, only when they are able to offer a much wider range of products; for loans, savings, insurance (life, non-life, health), etc. and services that can help poor households improve their incomes, housing, living conditions; access to basic amenities such as water, electricity, toilets; access to affordable and good quality health care.

Nikhil Prabhu

Delphi, Bangalore, India



What are the main challenges in SHGs bank linkage program? What would be your suggestion to overcome those challenges?

The challenges we see today in SBLP are much the same as those we documented seven years ago in the 'Lights and Shades' study – that EDA Rural Systems conducted with APMAS. As then, recent experience too highlights concerns about the low quality of SHGs, routine, monotonous group meetings, the need for more effective capacity-building over the long-term (meaning several years), the limited relevance of the standard bank products – credit or savings – available to SHG members; the limitations and not entirely positive attitudes of bank staff, as well as the limited capacity of SHG federations to play an effective role in financial intermediation.

As Ajay Tankha noted in his review published last year, 'Banking on Self Help Groups: Twenty years on': "practitioners and researchers assess that not more than one-third of SHGs nationwide would be of good quality in that they are functioning as intended and where member savings are secure".

The underlying issue has been high growth, largely driven by government targets for outreach and disbursements (which undermines quality), combined with subsidised lending (which undercuts the self-help principle). Around three quarters of SHGs in the country are part of state government programmes. And that number will only increase under the NRLM.

To overcome the challenges requires substantial effort, and of course funding, at different levels – banks and SHPAs. The NRLM is making some effort to include these issues as part of its design. Ultimately, we need to take a closer look at what may be working well. Even if the overall situation clearly needs improvement, there are some SHGs of good quality, a few federations that are performing well, some good examples of effective promotion. What are the features of these, and what can we learn from them? And will the Government learn too?

Frances Sinha

EDA Rural System

institution's goals should be, but help identify the best way to achieve them. MFIs can use the SPI-4 tool, which is now fully aligned to the Universal Standards, to do a self-assessment, and investors can use the indicators to inform how they evaluate the social performance of investees. Available in January 2014, www.cerise-microfinance.org/-tools

Implement, or promote implementation of, the Universal Standards: Implementing the Universal Standards is a process that will be different for each institution. The point is to set realistic social performance management goals and implement the Universal Standards at your own pace. Doing so not only improves social performance, but also demonstrates the sector's significant, voluntary effort to

Laura Foose

Director, Social Performance Task Force

Session Themes

Day 2

- LEVERAGING TECHNOLOGY FOR ADVANCING FINANCIAL INCLUSION: POSSIBILITIES AND TRADE-OFFS
- FROM TOKENSİM TO PRACTICE: ENGENDERING SOCIAL PERFORMANCE MANAGEMENT
- BUSINESS CORRESPONDENTS: VIABILITY IMPAIRING THE VALUE
- BACK OF THE BEYOND: REACHING OUT TO THE DIFFICULT REGIONS
- SHG FEDERATIONS: STRENGTHENING THE ENABLING ENVIRONMENT
- FRESH EVIDENCE ON IMPACT: DELIVERING ON THE PROMISE?
- THE NEED FOR HOUSING MICROFINANCE: WHO WILL PLUG THE GAP?
- REPORTING BLUES: BUILDING AN EFFICIENT DATA ECOSYSTEM
- SMALL FINANCE BANKS: AN IDEA WHO'S TIME HAS COME?



microfinanceIndia Awards 2013



Self Help Group Promoting Institution Award: PRADAN



Microfinance Organization of the Year Award, Small & Emerging Category: Sahayog Microfinance Ltd.



Community Based Microfinance Organization of The Year Award: Pratigya Samanvit Vikas Sakh Sahakrita Maryadit (PSVSSM)



Microfinance India Contribution to the Sector by Enabling Institution: Micro-Credit Ratings International Ltd. (M-CRIL)



Microfinance Organization of the Year Award, Large Category: Janalakshmi Financial Services Pvt. Ltd.



Microfinance India Contribution to the Sector by Individual: Mr. Brij Mohan



Microfinance Organization of the Year Award, Medium Category: Sanghamithra Rural Financial Services



Jury's Special Award: Prof. Malcolm Harper

Contributors

