



# National Microfinance Conference 2011

15 & 16<sup>th</sup> March 2011  
Hotel Ashok, New Delhi  
Summary of Proceedings



## Knowledge Partner



## Re-engineering Microfinance: Need for New Products & Policies

- *The need for a suitable work for the sector and urged MFIs to follow the sector's code of conduct*
- *practitioners should re-examine the dynamics of growth in the sector and cast aside the false belief in zero delinquency in order to address the problems that led to the AP crisis*
- *microfinance industry needs to "rediscover itself" by focusing on increasing client well-being*
- *commercialization has changed the relationship between organizations and their clients with the caveat that many smaller MFIs still focus on building these relationships*

The conference commenced with an inaugural address by **Shri Shashi Kant Sharma**, Secretary-Financial Sector, Ministry of Finance. He reiterated the important role of MFIs in financial inclusion and the Government's commitment to promoting and supporting the sector. *In his speech, he also emphasised the need for a suitable regulatory framework for the sector and urged MFIs to follow the sector's code of conduct.* After his remarks, the conference also benchmarked the release of Sa-Dhan's new publication titled "*Client Protection & Social Performance of Indian MFIs – An Empirical Report.*"

"Reassessing Microfinance: Past Achievements and Future Challenges," the panellists in this first session reflected on the state of the microfinance sector, focusing on the question of whether microfinance has achieved its objective of helping the poor. **Sanjay Sinha**, Managing Director of M-CRIL, stated that *practitioners should re-examine the dynamics of growth in the sector and cast aside the false belief in zero delinquency in order to address the problems that led to the AP crisis.* Further, he said, microfinance alone cannot alleviate poverty - it must be combined with other livelihood interventions. **R. Subrahmanayam**, Secretary of Rural Development, Government of Andhra Pradesh said that the *microfinance industry needs to "rediscover itself" by focusing on increasing client well-being* and ensuring that clients can repay before disbursing credit. He expressed the Government's readiness to engage with the sector to resolve the existing stalemate in Andhra Pradesh. **Vijayalakshmi Das**, CEO, Ananya Finance for Inclusive Growth, acknowledged that *commercialization has changed the relationship between organizations and their clients with the caveat that many smaller MFIs still focus on building these relationships.* After enumerating three similarities between events in Andhra Pradesh and microfinance crises in other countries, **Greg Chen**, Regional Representative, CGAP spoke about the promise that holistic

development organizations (ex. BRAC in Bangladesh) and next generation financial services models such as FINO and IFMR Trust's Kshetriya Grameen Financial Services hold for increasing financial access. **Rajeev Malhotra**, Economic Advisor to the Finance Minister, summarizing the session acknowledged the need for flexibility in approach, transparency in operations and financial literacy of the clients

"Financing Microfinance: Lowering Barriers to Investment," **Aseem Gandhi**, Advisor to Sa-Dhan in the second session of the Conference detailed the risks associated with investing in microfinance and outlined various ways that government and microfinance organizations could encourage greater investment in the sector. **Richard Weingarten**, Managing Director of the Norwegian Microfinance Initiative spoke about *the need for a regulatory certainty* as well as a framework that supports microfinance activity without restricting growth. **Jayanta K Sinha**, Chief General Manager, State Bank of India listed reasons why banks currently find it difficult to lend to microfinance institutions including a

- *The need for a regulatory certainty as well as a framework that supports microfinance activity without restricting growth*
- *concerns about MFI governance*
- *forgo massive returns for a slower but more sustainable growth trajectory*
- *interest rate cap would negatively impact financial inclusion efforts*

lack of transparency in their operations and *concerns about MFI governance*. According to **Samit Ghosh**, Managing Director of Ujjivan Financial Services, microfinance institutions should diversify their sources of debt and *forgo massive returns for a slower but more sustainable growth trajectory*. **N K Maini**, Deputy Managing Director, SIDBI, summarized the initiatives taken by the Lender's Forum to improve transparency and certain covenants in the lending agreement to ensure responsible lending.

"Pricing: Balancing Financial Viability with Social Impact," panellists in this third session discussed the issue of interest rates and product pricing and most agreed that an interest rate cap would be damaging for the sector as well as for clients. **Ramesh Ramanathan**, Chairman of Janalakshmi Financial Services, said that an *interest rate cap would negatively impact financial inclusion efforts* since organizations would no longer find it profitable or feasible to expand to underserved areas of the country, where operating costs are higher. He suggested that returns could be regulated instead of the interest rate, a measure that would not tie the hands of smaller MFIs and organizations operating in remote rural areas. **Manish Khera**, CEO of FINO, suggested that microfinance institutions could help reduce costs by borrowing from the BC model which has substantially lower per client costs. **Arindom Datta** Senior Director of RABO Indian Finance, agreed that an interest rate cap at 24 percent, as suggested by the Malegam Committee, would be harmful. He said that a flexible interest rate cap

in the area of 24-34% may be more reasonable. **Royston Braganza**, CEO, Grameen Capital spoke about the need for domestic funds for microfinance as well as the importance of tracking and measuring social impact. **T K Arun** from timesgroup, empathised the need for working with political circle in addition to improving processes and introduction of technology

"Diversifying Financial Products for the Poor: MicroInsurance and Savings", in this first Break Away session, **Manoj K. Sharma**, Director, MicroSave presented the highlights of the study on savings and insurance in South Asia. **Francis Somerwell**, Director, MicroCare mentioned that it is necessary to develop participatory methods of educating potential customers and providing insurance products. **Suresh Krishna**, MD, Grameen Financial Services expressed that there is a need for policy framework with suitable regulations and restrictions that allow MFIs to offer savings and insurance services. **Priya Kumar**, AVP-Rural & Agri Business Group said that micro insurance sector needs partnerships to be

sustainable. **Gauri Shankar** from IFC summarized the session highlighting the need for appropriate policy framework, customised products, accountability in transactions and suitable pricing

Making the Business Correspondent Model Work: Challenges and Opportunities, in this breakaway session-II the discourse revolved around why the Business Correspondent (BC) has not yet achieved the scale and impact on financial inclusion that many had predicted. Beginning the session, **Subhra Jyoti**, CEO of Asomi spoke about the role of mobile technology and POS devices in reaching rural customers. **Gobinda Bannerjee**, General Manager Punjab National Bank, examined the viability of the BC model from a banker's point of view – he opined *that the model will not be viable until and unless institutions can successfully offer savings plus products*. In addition to speaking about importance of financial literacy in increasing account usage, **Kartik Mehta**, COO Swadhaar FinAccess, argued that to make the model more effective the RBI must allow NBFC-MFI's to be BCs. **Bijoy Bhattacharya**, Professor at WeSchool, noted that banks will have to “hand hold” the model in the near term in order for it to be viable.

- *BC model will not be viable until and unless institutions can successfully offer savings plus products*
- *7R's are key in revitalizing SHGs: regular savings, regular meetings, regular internal lending, repeat loans, repayments, regular bookkeeping, and rotation of leadership*

“Community Based Models: Voices from the Field,” the Break Away session III, women from different states related their experiences working for community-based organizations as well as their expectations from policymakers and practitioners. **Ms. Sarifan** from Rajasthan described her large federation of 8000 as unified and dedicated to helping poorer members of society. She thinks that credit is helpful when it is offered at a relatively low rate of interest. **Ms. Shiela** spoke about the success her group has had at drawing women out of confinement, improving well-being of group members and their families, and promoting savings behaviour. She is looking for financial support from banks so that she can continue her activities. **Ms. Banoo Sheikh** cited several instances when her group mobilized to protect its members including an incident where the group members protested against the presence of a local bar which served men in her community. Her group has been successful at increasing savings, addressing domestic violence and other social issues and providing for members during emergencies.

The second day of the conference began with the Session Four, titled “Reinventing the SHG Movement.” **Ganesh Pandey**, Convenor, Shramik Bharati began the proceedings by noting that the SHG movement is in decline, as evidenced by numbers contained in the

State of the Sector Report. However, he predicted that the movement will be able to expand due to the union government's creation of a 500 crores fund for SHG development. **L.H. Manjunath**, Executive Director of SKDRPD, outlined the positive and negative aspects of the SHG model and outlined what he sees as the way forward for the movement. **S.L. Kumbhare**, the Chief General Manager of NABARD, *reminded delegates that the 7R's are key in revitalizing SHGs: regular savings, regular meetings, regular internal lending, repeat loans, repayments, regular bookkeeping, and rotation of leadership*. **John Gaunt**, Director of GY Associates Ltd, focussed on operations and the role of technology in facilitating outreach. Expressing concern for the sector in India, **Rohini Nilekani** stressed the need for community based infrastructure for poverty alleviation and empowerment

“Reforms in Practice: Code of Conduct and Self-Regulation,” panellists in session V of the Conference discussed the possibility and effectiveness of self-regulation at the institutional and sector-wide level. **R. Prabha**, Specialist in Banking and Microfinance, framed the discussion by noting the need for new regulation and highlighting successful examples of self-regulation. **David Gibbons**, Chairman, Cashpor Micro Credit, told the audience that his organization is one of only four microfinance organizations that have undergone a Code of Conduct assessment, a review which allowed the organization to recognize errant behaviour. **William Tucker**, Executive Director of Seep Network, looked to Bolivia’s BancoSol as an example of successful client-institution interaction. He also spoke about the importance of allowing market forces to work within an appropriate regulatory framework. He suggested it will be useful for building mutually supportive frameworks for supervision.

“Building Financial Infrastructure: How can the State Help”, the session VI of the Conference deliberated upon the role of the state in creating infrastructure for the efficient delivery of microfinance services, as set by **Shubhashis Gangopadhyay**, Director, India Development Foundation and moderated by **Y C Nanda**, Chairman of Agriculture Finance Corporation. **Colin Raymond** from IFC said that *credit information bureaus are examples of empowering infrastructure and is a must need for microfinance*

*sector.* **Vivek Kulkarni**, Managing Director, Brickwork Ratings said that infrastructural set ups should ensure that the interest of both MFIs and clients are not compromised. **Mathew Titus**, of Sa-Dhan stressed upon the need for skill development and effective supervision of small and regional MFIs

- *credit information bureaus are examples of empowering infrastructure and is a must need for microfinance sector*
- *The existence of multiple regulators could lead to chaos*

“Smart Regulation: Creating Policies that Work,” session VII, panellists debated existing regulatory proposals and outlined recommendations for a modified regulatory framework. **Baijayanta Panda**, Hon’ble Member of the Parliament, spoke about self-regulation and a statutory regulatory framework for microfinance organizations. Such a framework would not stifle the industry. **M.R. Umarji**, the Chief Legal Advisor of the Indian Banks Association, presented the current regulatory framework, and presented what he saw as a desirable framework for **TF Thekkekara**, Additional Chief

Secretary of the Department of Minorities Affairs of the Government of Maharashtra, noted that *the existence of multiple regulators could lead to chaos* but also acknowledged that other regulators may be necessary if RBI chooses to only regulate NBFCs. **Thiru K Allaudin**, Principal Secretary-PR & RD of the Government of Tamil Nadu, suggested that regulation should take place at the national level, not at the state level. In addition, he emphasised the need to follow and build the support framework for the Sa-Dhan code of conduct. **Vijay Mahajan**, Founder and Chairman of the BASIX Group, said that recent actions have nearly destroyed a sector that has done so much good work for the poor. Mahajan stated that we should look beyond the current situation and focus on the potential of the sector.

In the closing session, titled “The Future of Microfinance,” **Mathew Titus**, Executive Director of Sa-Dhan, posed questions to a distinguished panel on the focus of microfinance in the future.

The questions focussed on the following

1. The role of state governments and their interventions in the supervision of microfinance institutions.
2. The potential role of NABARD, and the availability of refinance at lower costs

3. The focus of microfinance institutions in reaching the poor. The speakers including **Thiru K Allaudin, Jayshree Vyas, M.R. Umarji, Sukriti Likhi, K Muralidhara Rao** all of whom discussed measures that institutions could take to better serve their clients. Towards the end of the session, **Jayshree Vyas** emphasized the important role of financial literacy in improving financial services usage; she also announced that the year-2012 would officially be the Year of Financial Literacy.