

## **Lenders, Investors & MFIs Confluence**

**23<sup>rd</sup> January 2024, BKC Mumbai**

### **1. Inaugural session:**

#### **Welcome Address – Mr. HP Singh, CMD, Satin Creditcare Network Ltd, Chair, Sa-Dhan**

Mr. HP Singh, Chair Sa-Dhan and CMD of Satin Creditcare Network Ltd extended a warm welcome to all participants and said that Micro finance institutions is a viable business model. He stressed on micro finance institutions which have remained resilient, despite disruptions in their lending, due to various external factors like demonetization, Covid-19 etc. He indicated that credit bureaus have helped the MFIs in their growth path. According to him, the Joint Liability Group model is functioning effectively. He has praised the fraternity of the lenders to be there with the sector in all thick and thins.

#### **❖ Inaugural Address – Mr. S Ramann, CMD, SIDBI**

Mr. Ramann, CMD of SIDBI in his inaugural address observed that MFIs need to access multiple sources for maintaining liquidity. He explained the role played by SIDBI in developing MFIs in the country. He also underlined the need for formalization of micro-enterprises and highlighted the role of Udyam Assist Platform in formalizing them. So far Udyam assist has helped onboarding, about 1.3 crore registration, and by March 2024, the figure is expected to touch 2 crores. In addition, another 2 crore formal entities have come on to Udyam platform.

He delved on the role played by Self Help Groups (SHGs) in last mile financial services. He said that SHG brought about 9 crores households under the basic financial services. Cluster Level Federation (CLF) of SHGs under NRLM delivers credit to large number of customers. Similarly, GOI has also been supporting credit societies under Ministry of Co-operation. He added that the ongoing computerisation of PACS will help in reduction of risk in its operation and give better financial services to poor people. He indicated that apart from other models, chit funds are also contributing in the financial inclusion in India; the chit funds are helping in saving and creating financial assets. He suggested the Microfinance sector needs to deliberate on decreasing the end rate of interest.

#### **❖ Special Address – Mr. Goverdhan S. Rawat, DMD, NABARD**

Mr. Rawat in his special address talked about NABARD, mentioned that cost reduction and compliance by MFIs are very important for NABARD. The impact of MFIs is outstanding, since it supports financial inclusion in our country. The goal should be to reach the last mile and also reduce the cost of lending for an inclusive growth.

Mr. Rawat mentioned that role of Self-Help Groups is important in building up trust among the regulators. According to him, the key challenges lie in building trust between the lenders and sector on end use of the money, quality of compliance, reporting, etc. He added that small borrowers do not have sufficient documents with them thus microfinance sector is important for their access to finance. He informed the participants that, the interest rate of KCC is 7 % for amount up to Rs 3 lakh. There is also 4% interest subvention for lending institutions.

❖ **Special Address – Banking Support to Reach the Unreached Geographies through MFIs (Mr. Paul Thomas, MD & CEO, ESAF SFB, Co-Chair, Sa-Dhan)**

Mr. Paul highlighted the achievement of ESAF SFB, impacting the lives of 9 million households. He indicated that there is a need to bring innovation and technology upgradation, which will in turn help in reduction of cost. It is necessary to treat MFIs as last-mile service providers and can be provided with subsidized refinancing. He has indicated that investments in microfinance are a lucrative venture and with the growth, the rate of interest can also be brought down to 18 to 19 % by playing on the scale. Mr. Paul talked about the reach of microfinance, where branches are servicing in deeper Chhattisgarh and Jharkhand. ESAF's top priorities are reaching to the poor as bank, working with business correspondents, and entering the liability market.

He suggested that concessional refinance at 4% may be extended to SFBs, which are mostly operating in rural areas and lending for agricultural activities, just like RRBs. He sought the consideration of NABARD, and the government. He indicated that ESAF has created agency based model and established branches in the distant geographies.

❖ **Special Address – Financial Inclusion**

(Mr. Prakash Chand Saboo, CGM, Financial Inclusion, State Bank of India)

Mr. Prakash Saboo lauded the MFIs for their resilience even though they were affected by a series in events in the recent past. He emphasized that Customer Service Points of SBI completed approximately 32,000 transactions and has the largest network of business correspondents. Mr. Saboo stated that the workforce in SBI is strengthened by 152 regional and training facilities. Rural Self Employment Training Institutes (RSETI) have been regarded as a successful institution for promotion of self-employment and sustainable livelihoods. According to him, the challenges lie on liability of the defaulted borrowers and he suggested to focus on one district and one product.

❖ **Vote of Thanks Inaugural Session – Mr. Jiji Mammen, ED & CEO- Sa-Dhan**

Mr. Jiji Mammen, talked about the microfinance sector which serves over 7 crore low-income households, touching about 30 crore lives in over 650 districts of the country. Mr. Mammen

emphasized on the requirement of growth capital to expand the reach of the sector to unreached geographies and population. Mr. Mammen indicated that smaller MFIs portfolio below ₹100 crore, find it difficult to raise debt funds from banks and financial institutions and they need to be supported. He suggested a guarantee fund for their borrowing would be useful.

## 2. Panel Session – I

### The perspective of Lenders on financing Microfinance Institutions (MFIs):

#### Funding Challenges & Solutions

#### **Moderator: Mr. Anjan Das Gupta, MD, ASA International India Microfinance Ltd**

Mr. Das Gupta in his opening remarks raised the issue of challenges of the MFIs to raise the funds. He shared the experience of ASA India with the participants.

#### **Mr. Chandramouli Vemuru, GM, SIDBI**

Mr. Vemuru, GM, SIDBI appreciated the association of SIDBI with Sa-Dhan, which has impacted the lives of communities and small borrowers. He raised the issue of rating restriction been imposed by the banks, though they are still supporting the sector. He emphasized the difficulties faced by small MFIs and suggested banks for a reduction in the lending rate. He valued the role of NABARD and NRLM in creation of Self-Help Groups and development of micro enterprises. He suggested to develop a strong framework for financial literacy to empower the clients on accessing the finance by informed decision.

#### **Mr. Shubhankar Sengupta, Head- Retail Assets, ESAF Small Finance Bank**

Mr. Shubhankar Sengupta, Head, ESAF Small Finance Bank indicated that MFIs regularly face funding issues with the banks and FIs. He suggested that smaller MFIs facing challenges to raise funds should look for BC partnerships. In this connection he indicated the support extended by ESAF SFB to be a BC partner of theirs. Mr. Sengupta mentioned that despite of challenges, small MFIs have shown resilience after COVID-19 and demonetisation. He appealed to MFIs to build up a long-lasting relationship with banks and NBFCs.

#### **Mr. Sanjeev Singh, DGM, Bank of Baroda**

Mr. Singh talked on PM Svanidhi scheme, a special micro-credit facility for street vendors to facilitate working capital loan up to Rs 10,000/- and their scheme to incentivise regular repayment. He emphasised on improving digital transactions using RuPay and others at ground level for effective disbursements and collections. Mr. Singh, valued the need to put competitive pricing that contributes towards the efficiency of MFIs, and thereby increasing their financial self- sufficiency.

#### **Mr. Sadaf Sayeed, CEO, Muthoot Microfin Limited, Board Member, Sa-Dhan**

Mr. Sayeed mentioned about different crisis faced by MFIs and how they overcame those. His MFI had a tough time in collections after Kerala floods. Similar incidents in other parts including pandemic led RBI to relax the pricing norms and microfinance lenders devise an appropriate pricing policy on loans. He indicated that the rate of interest mostly depends on the cost of funds, which is excessive in nature. Mr. Sayeed urged for grading standards, instead of rating, for investors. According to him, the key challenge to raise the funds, lies in net worth, size, rating etc. He indicated that Government's Credit Guarantee Scheme needs to be reintroduced for an effective mobilisation of funds.

**Mr. G Gouri Sankar, MD, Maanaveeya Development & Finance Pvt Ltd (Oikocredit)**

Mr. Sankar indicated that NBFCs are important in providing credit in the early phase of lending to MFIs. He opined the fact that about 10 large MFIs comprise 80% of the market in getting access to funds from various banks and lenders. Hence, he urged through Priority Sector Lending (PSL), banks should lend to small MFIs. Additionally, he urged Sa-Dhan to write to RBI that intermediary NBFC financing MFIs, particularly the smaller ones should be able to access PSL. It will help intermediary NBFCs to extend low-cost funds to the smaller MFIs. Moreover, he acknowledged the challenge of maintaining adequate debt equity ratio in the competitive market.

**Smt. N Neeraja, CGM, NABARD**

Smt. N Neeraja, CGM, NABARD indicated that NABARD is providing funds to medium and larger MFIs and the smaller one can avail of funds from its subsidiaries like NABFINS and NABSAMR.UDHI. She said that NABARD is working on this array products to help smaller MFIs and consulting with Sa-Dhan. She talked about Priority Sector Lending (PSL) which is a driving force in lending to small MFIs. She stated that some Commercial banks provide funds to bigger MFIs like Asirvad and Belstar.

**3. Panel Session – 2**

**The perspective of Investors: Opportunity and Way Forward**

**Moderator: Mr. Abhijit Ray, Co-Founder & MD UC Inclusive Credit Pvt Ltd**

Mr. Abhijit Ray, the moderator for this session talked about his experience of raising funds from general capital source and SIDBI. He indicated that key challenge for small MFIs lies in raising adequate equity capital. In early part of the century there had been several equity funders for MFIs. Now it is lacking. He also said that about 19 exits have happened in the industry equity funding and the average IRR works to 39%. Presently, only 14 large MFIs were able to raise equity capital. The funding support to MFIs is coming down and there is a need to reverse it.

**Ms. Arpita Pal Agarwal, MD & CEO, Dia Vikas Capital Pvt Ltd, Board Member, Sa-Dhan**

Ms. Arpita said that Dia Vikas Capital was the first Institution for equity funding in the country and has been working effectively for last 20 years. She expressed her satisfaction of having worked as a social investor especially for women entrepreneurs. She explained that diversifying the products of microfinance sector may help to raise the funds, especially for the smaller MFIs. She has highly prioritized the innovation and improvement in digital infrastructure across industries.

**Mr. Anurag Agarwal, Avishkaar Group**

Mr. Anurag stated that Avishkaar Group started investment in microfinance, in 2001, through a dedicated fund for development of micro enterprises. Avishkaar started investments in financial inclusion and the benchmark was to invest in Utkarsh and other larger companies with adequate liquidity. He stressed on the importance of investment in financial services and indicated that financing both non-NGOs and NGOs is required to take finance to the last person. He informed that Avishkaar has also raised funds for Fintechs off late.

**Ms. Smriti Chandra, Investment Director, Abler Nordic (NMI)**

Ms. Smriti Chandra, started her investment in the year 2008 and around 8 investments were already made in microfinance sector. One third of the funds were disbursed for micro-finance and rest for pursuing development activities. She was of the view that attracting private equity capital investment in small MFIs will be difficult due to risk involved; however, development of a strong Public Private Partnerships model may help to raise fund.

**Mr. Aqueel Ahmed Khan, MD, Mitrata Inclusive Financial Services Pvt Ltd**

Mr. A Khan, MD of Mitrata stated that small and medium MFIs have shown great resilience in the period of financial crisis and he requested them to be optimistic, despite of challenges in fund raising. There are funds available, but medium MFIs need to diversify the fund-raising strategies as investment in equity capital are available for large MFIs. Mitrata has been a part of acceleration program on various development programs and provided adequate funds for migrant workers. He suggested to maintain satisfactory debt equity ratio. He raised some pertinent issues with regard to funds for incubation and innovation and on dire need to initiate capacity building program across sectors.

**Mr. Rishabh Baid, Head- Financial Institutions Lending & Securitization, SBM Bank**

Mr. Rishabh, Head FI, SBM Bank, talked about his bank's satisfactory return on lending and investment to the microfinance sector. He discussed about the importance of bank guarantee to raise fund especially for the smaller MFIs.

**Summing up and Vote of Thanks – Dr Saibal Paul, Associate Director, Sa-Dhan**

Finally, the sessions concluded with summing up and Vote of thanks by Dr Saibal Paul. He indicated the importance of the sector to extend finance to the unreached population. In his deliberation, he suggested members to be creative in fund raising, as discussed in event. The

contribution of banking segment is immense and they need to be forthcoming for the smaller MFIs as been discussed in the day long deliberation. The major challenge is from the investor fraternity as many of them are yet to decide for investment in MFI segment. He thanked all the panellists, sponsors, participants and other stakeholders and announced, Sa-Dhan will be organising this meet every year.

**Action points:**

**1. Bridging the gap:**

Building trust between the lenders and sector on the end use of the money, quality of compliance and reporting, etc. Lenders must ensure that they are complying with various laws and regulations to make their transactions transparent and fair, especially decisions on lending to borrowers. MFIs need to create more confidence with lenders.

**2. Lending and Scalability Issues:**

Smaller MFIs struggle to raise funds which hinders their scalability. As their borrowing cost is higher (most of them are borrowing from NBFCs) their margin is thin. In order to support them, lenders, especially the bankers need to contribute more. Banks /FIs need to do away with the rating mechanism and instead adopt grading and COCA Assessment for fixing eligibility.

**3. Bringing more investors:**

The Investor fraternity does not have much interest in investment for microfinance. As it's one of the sectors where investment has a social purpose, they need to relook at the sector. SIDBI and NABARD being the leaders in the sector may consider creating dedicated equity funds for equity funding MFIs, especially the smaller ones.

**4. Adoption of Grading and rating:**

Lenders may think of accepting grading along with rating, wherever possible, as grading generates more insights about the institution, over and above rating. In additional COCA Assessment by reputed raters may be insisted for.

**5. Credit Guarantee Scheme:**

Sa-Dhan needs to request the government to create a separate Credit Guarantee Mechanism for the MFIs. It is much required for the smaller MFIs who are struggling to raise the fund, despite good work on the ground. SIDBI/ NABARD may also consider creating such a credit guarantee fund which will enable MFIs to borrow from Banks/ FIs.

## **6. Adoption of digital infrastructure:**

Microfinance sector needs to invest more in digital infrastructure which can help them to operate seamlessly, bring more transparency in the system and to reach to the unreached geographies. Smaller MFIs, which are many in number and operating in niche areas, are challenged to invest because of their small pocket. DFIs may think of investing in the digital infrastructure and make it available to the sector, especially to the smaller MFIs.

## **7. Rate of interest:**

Microfinance sector needs to deliberate on reducing the end rate of interest. They have to explore the opportunities, may be through some investment to reduce the cost of operation and end rate of interest. MFIs should work on competitive pricing and a healthy competition needs to be adopted. IN this regard the funding institutions which fund MFIs also need to adopt a right pricing mechanism so that the cost of borrowing is not high for MFIs.

## **8. Loan Default and Financial Literacy:**

The challenges of the MFIs lie on liability emanated from defaulted borrowers. The sector needs to adopt responsible lending practices and to develop the capacities of the clients on responsible borrowings. MFIs with the help of SROs may engage in training of end clients on financial literacy and responsible borrowing. This will help the lenders to manage their risk of investments.

### **Sa-Dhan Team:**

- 1- Mr. Jiji Mammen, CEO & ED
- 2- Dr Saibal Paul, Associate Director
- 3- Mr. Sandeep Rewari, DVP
- 4- Mr. Mahtab Alam, Regional Coordinator, West Zone
- 5- Mr. Devender Samant, AVP