

From the Editorial Desk

The Financial year 2023-24 was an exciting one, with the sector doing very well. At the same time, there have been also reports of stress and strains in certain pockets. The sector's growth, which averaged over 20%, showed some deceleration in the last quarter.

The first quarter of the current year started well with some caution. The regulator has been closely monitoring the MFIs and has also been raising some red flags regarding pricing and overleverage.

In this background, Sa-Dhan held a one-day CEO meet of 'For Profit' microlenders named SANKALP-2024 at Bengaluru on 23 July 2024, where more than 50 CEOs attended and deliberated on the status of microfinance and the way forward. A seven-point action programme was finalised and circulated as 7 *Sankalps*, to make the microfinance sector sustainable, and healthy with borrowers' interests protected.

I am sure that the new guidelines, along with the existing *RBI regulatory framework* and the *Industry Code of Conduct*, will help enhance transparency, promote fair lending practices, and protect borrowers from over-indebtedness.

Human resources are the major strength of the microfinance industry. Microfinance is a highly human-intensive industry, with its *feet on the street* model. Hence, retaining qualified and experienced manpower is very important. However, with the recent trend of high attrition, the microfinance industry is facing tough times.

MFIs need better policies to retain staff, including regular training, better work culture, and competitive compensation. Sa-Dhan, with IIBF, is developing a *certification program* to provide trained manpower for MFIs across states.

Enterprise promotion is an area where MFIs need to focus more. Of course, most of the lending by MFIs helps in creating livelihood activities. It is time to upscale these business activities to generate higher income for the poor households.

The *Lakshpati Didi* programme of the Government is a step in the right direction. Sa-Dhan has also joined hands with NRLM and SRLMs in 7 states to promote enterprises among SHG members.

Microfinance *impact*

In a separate programme, SIDBI is supporting Sa-Dhan in developing women-led enterprises in two states - Gujarat and Tamil Nadu involving the MFIs in these states.

RBI has again supported Sa-Dhan and MFIs in carrying out the *Depositors Education Awareness* programme through 1,500 DEA Workshops. We have partnered with 32 MFIs to conduct these workshops in 24 states.

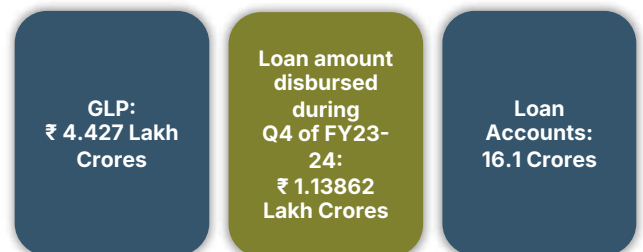
Climate change is a reality, and we are facing its impact on a daily basis. The last summer was very harsh in several parts of the country. Similar is case with the monsoon this year, causing huge damage to lives and properties. Sustainable development is the mantra for overcoming this menace, and we too need to practice sustainable lending.

Sa-Dhan, along with GIZ and Tata Trust, is engaged in promoting climate resilient agriculture; encouraging MFIs to do the same. In a recent meeting CASPIAN has promised supporting MFIs for green financing by setting apart a separate fund for the same. Let us make use of the same and run our business in a sustainable manner. I am sure that together, we can make an indelible difference.

Wishing the very best.

Industry Highlights

Microfinance portfolio as on 31 March 2024.



Source: CRIFF Highmark

The top 4 states in terms of portfolio are: Bihar (₹ 58,706 Cr.), Tamil Nadu (₹ 53,304 Cr.), Uttar Pradesh (₹ 40,770 Cr.), Karnataka (₹ 37,427 Cr.)



Sa-Dhan Board reconstituted

Sa-Dhan's Annual General Body Meeting was held on 21 June 2024, in Delhi. Other than regular business agenda, the AGM also elected 5 new members, leading to the reconstitution of the Board, with Shri. Paul Thomas MD, ESAF SFB as the Chairman, Shri. Sadaf Sayeed, CEO Muthoot Microfin and Shri. Mukul Jaiswal, MD Cashpor as Co-Chairs and Dr. V. Salimath, Chairman IDF as the Treasurer.



At the end of the meet, the members came up with the '7 Sankalps' for sustainable growth of microfinance in the country and protecting the interest of borrowers. The second meeting, involving 'Not for Profit' organisations will be organised soon.



Seven Sankalps adopted by CEOs at the meet:

Gratitude to the past leaders



Shri. Brij Mohan, the mentor and guide for long



Shri. HP Singh, CEO Satin Credit Care, the past president

SANKALP 2024

Sa-Dhan for the first time had an exclusive meet of all the CEOs of its member institution by name SANKALP 2024. The first meet was held for the CEOs of 'For-Profit' organisations at Bengaluru on 23 July 2024.

More than 50 CEOs attended the one-day meet where the current issues in Microfinance sector and the way forward was discussed.

1. Over indebtedness

A maximum of ₹ 2,00,000 outstanding per household from all sources, other than long term loans like Housing, provided the tenure not less than 24 months.

2. CB Check

Household level Comprehensive Bureau check is mandatory (Client + Spouse).

3. Employee Attrition

Mandatory submission of data and checking of Employee bureau with background checking and insisting for past relieving letters before hiring. (staff with no experience de- dupe with Aadhar to be done for PF account details).

4. Lending to NPA accounts

No lending to 90+ dpd accounts (external. Efforts should be made to lower this limit to 60 dpd and 30 dpd over the period to ensure better hygiene of loan portfolio.

5. Pricing of Loan

Components of RoI (CoF, Opex, Risk Margin, Margin) should be well defined and justifiable and Should be approved and reviewed by the respective boards. Efforts may be taken to have differential risk-based pricing for the clients.

6. Utilization of loan

The end use of loan to be verified to ensure no misutilization of loan

7. External interference

No external interference in the form of ring leaders or loan agents should allowed in the sanction process.

Voice of the Industry

1. Microfinance: Journey thus far and the road ahead.

Microfinance in India has come a long way to this day, becoming a crucial component of the financial landscape, not only in alleviating the poverty of the marginalized communities and rural women but also the economic development in rural areas. Multiple interventions by the Government, Regulatory Body and Industry at right time over the past 30 years have made the industry *robust* and *resilient*, in spite of many challenges along the way.

Though, it had many shocks in the past, but the industry bounced back more resilient after each crisis and with innovation and best practices. Today, MFI - Industry segment has been mainstreamed with more than 7.5 crore women borrowers with a thriving ecosystem led by Banks and other non-banking financial institutions ably supported by *robust regulation*, *credit bureau system* and very active *industry SROs*: Sa-Dhan and MFin.

The annual credit mainly to rural India is averaging around ₹ 3 Lakh crores in the last few years through MFI industry, which is significant. More than 1/3 of the disbursement and portfolio has been from the banking sector directly, which acted as a pivot for the industry. Recent developments in the sector: *Technological interventions*, *Demonetisation* and *Covid-19 Pandemic* have catalysed the sector's rapid technological adoption. The *Jan Dhan - Aadhar - Mobile (JAM Trinity)*, *Business Correspondent (BC)* models and enablement of Indian Digital Rails have contributed to the growth of MFIs in terms of widening the reach and accessibility of microfinance services to the underserved customers.

Further the business innovations such as *co-creation of products*, *partnerships* and ecosystem collaborations among banks, microfinance institutions and fintechs have strengthened the overall value proposition of the industry. Microfinance industry today is leveraging technologies such as *big data analytics*, *artificial intelligence*, *machine learning* and cutting-edge APIs across multiple DPI platforms.

We are in Microfinance Industry 3.0 with new regulations and maturity after weathering multiple industry shocks across, Phase-1 (before AP crisis), Phase-2 (after demonetisation), and Phase-3 (after Covid-19 pandemic and new regulations).

Many MFIs have gone on to become Small Finance Banks (SFBs), one becoming a Universal bank, such has been the nature of landscape shift and mainstreaming of the industry - all achieved in the past decade.

1.1 Impact of Microfinance

Women empowerment

Single most impact of the microfinance is women empowerment in India. Access to financial services has enabled them to participate in economic activities and improve their social status. Programs focused on women's entrepreneurship have led to increased self-esteem and greater control over household resources.

Poverty Alleviation

By providing access to credit and financial services, microfinance has helped individuals and families improve their economic conditions. This segment of the population was not served well by the banking system before MFIs proved the viability of the business model.

Education and Health

Increased financial stability from microfinance has led to better investment in education and health. Families have been able to send their children to school and afford medical care when they have access to financial resources. This, in turn, has created a positive cycle of improved socio-economic conditions.

Infrastructure Development

In some cases, microfinance has contributed to the development of local infrastructure. For example, community-driven initiatives funded through microfinance has led to creation of health centres, Entrepreneurial training centres and local schools thus enhancing overall community development.

Significant Employment Creation

Today, the industry has created almost 1 million Jobs mainly in the rural area, which is a significant economic multiplier.

Innovative Financial Products

The microfinance sector has also enabled the development of innovative financial products tailored to the needs of low-income populations. These include microloans, savings accounts, insurance products, and pension schemes. By diversifying their offerings, MFIs address a wide range of financial needs and enhance the financial security of their clients.



1.2 Current challenges faced by the microfinance sector in India

i. Over-Indebtedness

One of the significant challenges in microfinance is the risk of over-indebtedness among borrowers. Due to the high demand for credit, short cycle time of loan process, and the lack of a real time credit history, borrowers are taking multiple loans from different MFIs, leading to unsustainable debt levels. This is creating financial stress and defaults, affecting both borrowers and lenders.

ii. Credit Assessment Hurdles

The microfinance sector faces process complexity and lack of Objectivity in assessing the actual cash flow of the customers and ability to predict their income sustainability. Moreover, most of the assessments are bias prone of the Field level manager.

iii. High Operating Costs

Microfinance institutions are facing high operational costs due to their Feet on Street Model and need for a widespread network of field agents and branches to reach remote areas. The cost of servicing small loans can be relatively high, impacting the sustainability of MFIs and their ability to offer competitive interest rates.

iv. JLG Model

The Joint liability Model which has proven to be the bedrock of the MFI's industry's viability is coming under challenge given the competitive landscape and also the choice that the customer has in getting credit.

v. Multiple Influencers leading to local Shocks

As this segment of the population is vulnerable to manipulation of the vested groups, there could be problems of the credit culture and industry needs to be careful and must have a robust co-ordination mechanism in place.

vi. Process Sensitivity

This industry relies heavily on process robustness of individual companies right from Onboarding Customers to final disbursement and maintaining a cohesive Employee Culture, any laxity on this poses a significant challenge to credit quality of individual companies and the entire industry as a whole.

1.3 Road Ahead and Future Prospects

a. Over-Indebtedness

Microfinance in India holds significant potential to drive financial inclusion and economic development. However, addressing the challenges faced by the sector is crucial for continued success and Industry's viability.

As India continues to evolve Socially, Economically and Technologically the microfinance sector must adapt and innovate to meet the changing needs on an evolving basis. With a balanced approach that leverages opportunities while addressing challenges, microfinance can play a transformative role in shaping a more inclusive and prosperous future for not only Rural India but also semi urban and urban India.

b. Digital Transformation

The future of microfinance in India is likely to be shaped by continued digital transformation. The adoption of digital financial services, including mobile banking and blockchain technology, can enhance the efficiency, transparency, and reach of microfinance operations. Fintech innovations are expected to reduce costs and improve access for rural and remote populations.

c. Focus on Sustainability

Sustainable microfinance practices are becoming increasingly important. This includes ensuring the financial health of MFIs, adopting responsible lending practices, and maintaining a balance between profitability and social impact. Efforts to enhance transparency and accountability will be crucial for the sector's long-term sustainability.

d. Integration with Government Schemes

Microfinance institutions can play a vital role in the implementation of government welfare schemes and social protection programs. Collaboration between MFIs and government initiatives can streamline the delivery of benefits and services to marginalized communities.

e. Expansion into New Markets

As the Indian microfinance sector matures, there is potential for expanding into new markets and offering products tailored to evolving needs. This could include financial services for emerging entrepreneurs, gig economy workers, and low- income urban residents.



f. Enhancing Financial Literacy

Increasing financial literacy among microfinance clients is essential for maximizing the benefits of financial services. Education programs that focus on budgeting, savings, and responsible borrowing can empower individuals to make informed financial decisions and avoid over-indebtedness.

In Summary, Microfinance in India continues to be a powerful tool for financial inclusion and economic development. While the sector faces challenges such as over-indebtedness, regulatory complexities, and high operating costs, it also presents significant opportunities for positive social impact.

By addressing these challenges and leveraging new technologies and approaches, microfinance can play a transformative role in improving the lives of millions of people across India.

Natarajan. R, Chairman & Managing Director South India Finvest Pvt. Ltd.



2. Work-life balance, employee engagement and discretionary effort in microfinance industries

Value gets created at centre in microfinance sector where representatives of company (Field Officers) meet customers (members) and develop business relation.

Emotional connect and trusts are built at this place, so it is value zone for microfinance institution. Field officers (addressed differently in different microfinance company) are ambassadors of microfinance company, their conduct and services to customers at value zone is key differentiation to enriched customer satisfaction, portfolio quality and higher business growth. Engagement of field officers is key to success of microfinance company.

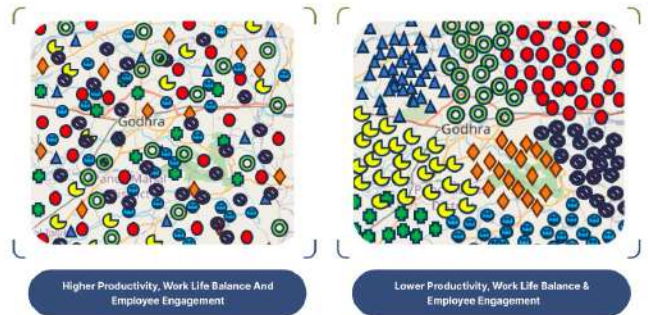


The business benefits of increased employee engagement, including improved retention, more discretionary effort and greater productivity, will only accrue if work-life balance is genuinely valued and promoted throughout the workplace.

2.1 Work-life balance

The future of microfinance in India is likely to be shaped by continued digital transformation. The adoption of digital financial services, including mobile banking and blockchain technology, can enhance the efficiency, transparency, and reach of microfinance operations. Fintech innovations are expected to reduce costs and improve access for rural and remote populations.

Work-life balance can be managed through creating a set of centres with maximal geographical proximities for each Field officers. It is extremely critical to have better work-life balance and higher productivity. This would help us complete collection during critical hours (7AM to 11AM) and increase employee productivity and work-life balance resulting higher employee engagement.



There are age-old assumptions that field officer who built new centre should manage the same to retain trust and relation. This is a myth, never been effective because of high employee turnover.

Another myth is that asset quality cannot be assured, so same officer should own the centre to ensure 100% collection efficiency. If we dissociate disbursement (forming portfolio) from collection (maintaining portfolio), the relation and trust between field officer and customers would be maintained. Banks have been using concept of Key account manager for decades now, the bank representative who facilitate customer due diligence and loan processing is no more relevant to customers. MFI needs to adopt this model for ensuring better productivity and work-life balance.



Centre created by one field officer need not to be assigned to him, it can be assigned to another officer as per setting logic. Set also helps us to manage absenteeism and ensure business continuity by allocating to another officer. The views and behaviour of senior managers, line managers and colleagues' impact on whether employees feel able to take advantage of workplace initiatives to achieve better balance in their working and personal lives. If the initiatives are there but the workplace culture does not support the use of them, their value is at best minimal, at worst negative, leading to cynicism and resentment.

Workplace culture can be built by driving organizational values across organization. Its always water fall model, seniors to demonstrates organizational values during their interaction and demonstration. For field officer, branch manager and area managers are representative of workplace culture. One of the key problems in microfinance is too many reviews and monitoring despite all kind of live analytics in place. Each geography has its own nuances from political, economic, social, tech-savviness, ecology and legal awareness prospective (PESTEL), one-stop-approach or pan India standard approach may not be effective. Branch Manager should be sole responsible for field officer's performance and engagement, involving too many mid-levels as well as remote managers without PESTEL knowledge in daily life of field officers increases work-pressure and affects the perception towards workplace culture. MFI organization need to invest on training of Branch Manager as people manager with in-depth local market insight and appropriate decision-making abilities.

Discretionary effort is the extra mile an employee (Field Officer in MFI) is willing to take in order to satisfy their customers, coworkers, and organizational goals. Employees get hired because of their skills and talents. It is their discretionary effort that becomes the measure of their value to the organization. Success for a microfinance leader can be measured by their ability to improve the discretionary effort of employees and help those translate to excellence for the employee, the organization, and ultimately the bottom line.

Sadly, there are hindrances to this happening. Both microaggressions and microinequities challenge the ability of employees to transcend from just doing what they are being asked for and using their full potential. Microinequity is the way a supervisor in the dominant group belittles a person or places a label on them based on inherent characteristics such as knowledge, experiences, education, financial condition and family back-ground of field officer. Microaggression is the use of brief, hostile and common stereotypes aimed at field officers. Both concepts are counterproductive and can affect employees negatively. A victim of microinequity and microaggression may feel inferior and develop a low self- esteem, thus decreasing their willingness or even their capacity to work at high levels of performance. There is a direct and measurable way to analyse the impact of microinequities and it is by looking at the level of discretionary effort measured against the individual's or group's potential. We know that when Field officers are respected and appreciated, they are motivated to find creative ways to solve business problems. In this light, eliminating microinequity and microaggression to improve discretionary effort should be a priority for every organization. Doing so is key in ensuring that employees are connected to the organization's mission and are willing to perform at the best of their abilities to attain their goals. Below are ways of improving employee's discretionary effort.



2.2 Practice micro affirmation

Micro affirmation is the act of acknowledging small acts that show dedication and going above and beyond. This increases self-esteem and makes employees feel that their efforts do not go unnoticed. Celebrate every small step of success and make some noise around it.

Promote diversity in the workplace

Allow individuals to practice their festivals, culture and encourage everyone to have a better understanding of other colleague's culture and beliefs. View these differences not as a hindrance but as a way to enrich oneself.

2.3 Start a support group

Start a support group for Field Officers to talk with when they feel that they are being singled out. It is important to have someone to talk to that can reintroduce them back to the team and encourage them to work as a group.

In the final analysis, the level of motivation of the field officers dictates the path the microfinance organization will take, which is ultimately success or failure. A well-motivated employee with optimal work-life balance will engage, produce, and give more discretionary effort to work and will contribute better to the success of the organization.

By Bikram Mishra, Head - Business HR,
Spandana Sphoorty Financial Ltd.



RBI-DEA Workshops

The second phase of the RBI -DEA Workshops began on July 6, 2024. In the current phase, 1,500 workshops, and 100 street plays (*Nukkad Nataks*) will be organised to reach out to more beneficiaries with the support of 34 partners (11 new and 23 existing) covering 22 states and 100 districts).



New Appointments



Shri. Ratan Kumar Kesh
MD & CEO (interim), Bandhan Bank



Shri. Sanjeev Nautiyal
MD & CEO, Ujjivan SFB

Industry News



Our Congratulations and Best wishes.

Three of our members: Bharat Financial Inclusion Ltd., Ujjivan SFB Ltd., and Belstar Microfinance, obtained the coveted recognition.

Congratulations!

ESAF shows the way!



ESAF Small Finance Bank's **Dabba Savings Account** campaign won in the **Sustainable Development Goals category** at Cannes Lions.

Since its NGO inception, sustainability and gender equality have been core to ESAF's mission, making this recognition especially meaningful. The Dabba initiative is to mobilise smaller savings from the poor women, by providing them a traditional experience.



Muthoot Microfin has been recognized as the **'Microfinance Company of the Year'**, at the prestigious ET Business Awards 2024.



Congratulations Kranti Sety from Svantra Microfin to be amongst **India's Impactful HR Leaders 2024**.

Success stories

1. Determination and mental strength help to tide over difficulties.



Growing up in Benipatti, Bihar, Mamta Kumari was born into a family with limited financial means. Her determination to make a better life for herself and her family led her to overcome all the challenges. With a microfinance loan of ₹ 30,000 from Zyllo Micro Care Foundation, Mamta pursued her entrepreneurial dream and set up a tailoring shop.

The tailoring shop has been able to generate adequate income for her and family and they lead a contented life, thanks to **Zylo Micro Care Foundation**.

2. Poultry birds bring prosperity.



Since her marriage, Indrani has been running a small poultry farm while her husband has been doing farming. With limited income, she decided to scale up her business and received a loan from Grameen Shakti. Now, with 2,000 birds in their farm, her business has flourished, leading to financial self-sufficiency.

They built a new house, sent their daughters to school, opened bank accounts, and secured LIC policies - thanks to her determination and resilience, and timely support from **Grameen Shakti Microfinance**.