



Press Release

6th Eastern India Microfinance Summit 2022 Hosted By AMFI-WB

In Association with M2i, MFIN & Sa-Dhan

The Theme of the Summit 2022 is “Reimagining Microfinance in Light of the Emerging Regulatory Paradigm”

Kolkata, 11th April 2022: This year's East India Microfinance Conference is being organized in the backdrop of the announcement of a new regulatory framework for microfinance in India, which was announced by the Reserve Bank of India in March 2022. This announcement marks a paradigm shift in regulations for the MFIs and recognizes their growing importance and maturity. It is expected that the MFIs would now be in a better position to serve their clients through well suited products for various segments.

The Industry has now weathered over two years of COVID 19 crisis, which has severely impacted the lives and livelihood of everyone. Lockdowns and resultant loss of income resulted in disruption of economic activity. The impact was particularly severe for the microfinance clients who had to face significant loss of income, being dependent on the informal economy to a large extent.

The most disruptive Financial Year that Indian economy had ever witnessed has come to an end. In the post pandemic phase, it is necessary that the micro-lenders, the bankers, the policy-makers, allied financial service providers and researchers join hands on common platform to chalk out future strategy for a speedy revival of the growth process in the microfinance sector. To this end, the Association of Micro Finance Institutions – West Bengal, along with its member MFIs and Banks and knowledge partner M2i and in partnership with MFIN and Sa-Dhan – is hosting the 6th Eastern India Microfinance Summit 2022 titled, “Reimagining Microfinance in Light of the Emerging Regulatory Paradigm” This is being held on 21st of April 2022 at The Park Hotel, Kolkata. The purpose of the summit is to actively engage key stakeholders in discussions relevant to current and future road map of the microfinance sector with special reference to the eastern region.

A Team led by Dr. Kuldip Maity, MD, VFSL, along with Mr. Manoj Nambiar, MD, Arohan Financial Services; Mr. Pranab Rakshit, MD, Sarala Development Microfinance Pvt. Ltd.; Mr. Kartick Biswas, MD, Uttrayan Financial Services Pvt. Ltd. and Mr. Alok Biswas, MD, Janakalyan Financial Services Pvt. Ltd. were present to brief the media at the announcement Press Conference of the 6th Eastern India Microfinance Summit 2022, held at Kolkata Press Club.

Discussions in the 6th Eastern India Microfinance summit 2022 will focus on the following themes:

Inaugural Session:

The inaugural session will discuss the key issues around the main theme of the Summit to reimagining microfinance in light of the emerging regulatory paradigm. The key issues discussed in this session will include

- How will the new regulations serve to enhance the cause of financial inclusion in the country?
- What will be the specific impact of these regulations on banks, NBFCs, BC Companies and not for profit companies?
- Will the new regulations enable enhanced capital flow in the sector?
- To what extent are the new regulations recognition of resilience displayed by the MFIs and clients during the COVID-19 crisis
- How will the MFIs be better equipped to deal with a COVID-19 like crisis, under the new regulatory framework?

Session 1: The New Regulatory Framework - opportunity to serve the clients better:

The new regulatory framework announced by the RBI arguably brings the most significant changes in the regulations for the MFIs after 2011. It is already being acknowledged that the new framework recognizes the growing maturity and importance of the MFIs in financial inclusion. This also recognizes the growth, innovation and resilience displayed by the MFIs and their clients in the existing regulatory framework. Key topics discussed by the participants in this session will include

- In what ways will the new regulations enable innovations in product development?
- In what ways the new regulations enable outreach to the underserved geographical areas or population groups?
- In what way will these regulations encourage adoption of new technologies?
- How can the clients be protected from the risks arising out of use of digital technology for doing transactions?

Session 2: Challenges of financial inclusion in Eastern India

Eastern India is home of over 50 microfinance institutions. The region is also densely populated with a large proportion of population engaged in agriculture and micro enterprises. Eastern India had proved their growth potentiality and repayment track record of micro finance clients over the past several years. High growth potential of microfinance in the eastern sector has also attracted MFIs from across the country. Most of the prominent MFIs in India have operations in Eastern India. This session will discuss the issues specific to the microfinance ecosystem in the Eastern India with focus on the following aspects.

- Economic growth, demand and market size
- Support from the government and local authorities
- Complementarity with government programs
- Law and order and physical infrastructure
- Portfolio quality related aspects
- Role of national level SROs (Sa-dhan and MFIN) in Eastern India

Session 3: Serving clients with diverse product offerings

Microfinance Institutions serve a variety of financial needs of their clients. While most of the loans have traditionally been provided to the clients for income generation purposes, the MFIs now offer a variety of cross-sale products for their clients besides loans for housing, education, water and sanitation and energy requirements. Varieties of insurance products are also being offered through the MFIs. In this session, among other things, the panelists will discuss the following important issues

- Building household level resilience through micro insurance products
- Making products more efficient and effective with more appropriate use of technology.
- Serving the missing middle segment through micro enterprise financing
- Promoting carbon reduction by encouraging use of solar products

Scenario in West Bengal:

West Bengal has always been one of the pioneers of microfinance in India. It had always contributed significantly to the understanding of microfinance practices across the country. Even today, in terms of loan portfolio, West Bengal is only second to Tamil Nadu, accounting to around 12.4% of total loan portfolio in India. West Bengal also accounts for 10.4% of active loans in the country. Six out of top 10 districts in India, in terms of loan portfolio outstanding, also come from West Bengal (North 24 Parganas, Murshidabad, Jalpaiguri, Nadia, South 24 Parganas, Bardhaman)

In West Bengal, this industry (among the AMFI-WB Members i.e. MFIs and Banks)) directly employs at least 37,000 people and most of them are from low income families with limited educational qualifications with total investment of 37000 Crores as loan outstanding as on September, 2021. The MFI segment created huge micro and small entrepreneurship in the state, covering more than 9 million women who are mostly from the underprivileged segment. The government needs to be more proactive in terms providing safeguards to this industry in matter of issuance of trade license, shop and establishment registration and other compliance processes. We may seek a single window option for trade licenses and shop and establishment for a one time fixed fee per branch.

Scenario in Eastern India as well Pan India level:

As on 30 Sept 2021, the combined micro credit portfolio of 218 lenders is ₹2,25,331 crores, a growth of 1.4% over previous quarter (Q1 FY21-22). On a YoY basis, the portfolio has decreased by 1.1%. Banks have the highest share in the market in terms of loan portfolio with 41% market share, followed by NBFC-MFIs with 35% market share.

The microfinance sector has shown tremendous resilience in the wake of the pandemic, showing inherent institutional strengths. During the times of crisis, welfare of clients has been the most important area of focus for the MFIs who have helped them by offering relaxed repayment terms as well as providing direct support to the vulnerable groups. Many MFIs have been involved in offering ration kits, creating awareness for Vaccination and facilitation of vaccination drives.

Government also recognises the importance of microfinance and has been very supportive. The Ministry of Finance had announced a Credit Guarantee Scheme of Rs 7,500 on 28th June 2021 for enabling enhanced fund flow to the Microfinance Institutions thereby reaching out to the bottom of the pyramid.

Some of the key discussion points to understand the microfinance industry nationally as well in Eastern India Perspective:

The following are the most important issues to consider to further increase the resilience of the microfinance sector and creating enhanced value for the under privileged sections of the society.

1. The government should further increase the funding and liquidity support to the sector particularly the smaller MFIs.
2. The interest rate calculation formula specified by the RBI will prevent lenders from enjoying huge margins and especially banks, which have low-cost deposits, will be discouraged from

charging the same rate as the MFIs. But should insurance charges be included for pricing micro loans? Most of the customers in this segment are not insured and death rates are high. Inclusive of insurance charges, the interest rates will be high, which may not be politically palatable. The calculation of internal rate of return, or IRR, for a lender should exclude insurance though it should be mandatory to declare it.

3. India's microfinance industry is at a crossroads now. The Covid pandemic has wreaked havoc and many of them have restructured between 10 and 30 per cent of loans; and gross bad loans could be in the range of 5-15 per cent. The micro, small and medium enterprises have got the benefit of the government's Emergency Credit Line Guarantee Scheme but the MFI industry caters to very few of them. Reducing exposure to unsecured loans from 85 per cent to 75 per cent will be of little help. If the regulator wants to make the segment resilient, it should drop it to 60 per cent.
4. Finally, cash collections of micro loans run into thousands of crores a month. Shouldn't the RBI look for a differential pricing for digital offerings? That will help speed up digitisation in this segment.
5. Apex financial institutions like SIDBI and NABARD need to further enhance equity and loan support to the MFIs particularly the smaller ones.
6. Investment in client education needs to be enhanced to increase productivity of their businesses and enable them to take advantages of the available opportunities
7. There is scope to further support the MFIs in improving their capacity to develop more products and understand needs of the clients better.
8. The Government should further increase the funding and liquidity support to the sector particularly the smaller & medium sized MFIs like continuation of **CGSMFI** scheme for another 2 years.
9. Apex financial institutions like SIDBI, NABARD and MUDRA need to further enhance **equity loan and long term sub-ordinate debt** support to the MFIs particularly the smaller ones in line with **IMEF Fund** as earmarked in earlier budgets.
10. More & More '**Financial Literacy Workshop**' for Clients may be organized so that they can embrace the digital transactions more freely. Capacity Building support is also required.
11. It is high time for the Government to create '**Microfinance Regulatory Authority**' exclusively for regulating and promoting NBFC-MFIs.
12. Creation of an '**Autonomous Finance Corporation**' for MFIs that may address the problems of liquidity of Small & Medium sized MFIs
13. Creation of special **window by the Banks** for funding of NBFC-MFIs & special budgetary allocation for this purpose.
14. Regulators have prescribed guidelines for responsible lending but there is no such guidelines related to responsible borrowing. Code of Conduct for responsible borrowers may also be framed forthwith.
15. Rating & Grading agencies must formulate separate guidelines of rating / grading for Small & Medium sized MFIs.

For further details:

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