



The 7th Eastern India Microfinance Summit 2023 to be hosted by AMFI-WB in Association with PwC, MFIN & Sa-Dhan

The Theme of the Summit 2023 is “The Next Gen Microfinance - Role of Digital Technology in the evolving roadmap of Microfinance”

Kolkata, 3rd January 2023: The Association of Microfinance Institutions – West Bengal (AMFI-WB) will be organizing the 7th Edition of Eastern India Microfinance Summit 2023 in Association with PwC, MFIN & Sa-Dhan. This year the theme of the Summit is “The Next Gen Microfinance - Role of Digital Technology in the evolving roadmap of Microfinance”. The 7th Eastern India Microfinance Summit 2023 will be held on 13th January 2023 from 9.30am onwards at The Lalit Hotel, Kolkata.

A Team consisting of Dr. Alok Misra, CEO & Director, MFIN, along with Mr. Pranab Rakshit, MD, Sarala Development Microfinance Pvt. Ltd. and Mr. Ganesh Chandra Modak, MD, Grameen Shakti Microfinance Services Pvt. Ltd. briefed the media about the Summit at the Press Conference at Kolkata Press Club on 3rd January.

The 7th Eastern Indian Microfinance Summit is being organized to re-evaluate the strategic roadmap necessary for the microfinance industry to build products taking advantage of digital tools and technologies to serve their clients in a robust and client friendly manner. The recent RBI-released guidelines for the microfinance industry have unleashed the competitive forces in the industry pinning greater responsibility on Boards of individual companies and SRO and the sector is well placed to take advantage of these regulations in reaching out to the vast underserved and unserved market [As per MFIN, the current market potential is Rs11 lakh 42 thousand crore as against current outreach of around 3 lakh crore]. Key principles of fact sheet and limit on maximum possible indebtedness introduced under the new regulatory framework will foster transparency and enable the clients to make informed decisions related to credit. As the regulations are now “legal form” agnostic, it will lead to sustainable and responsible growth of microfinance. The Next Gen Microfinance Summit will facilitate the discussion of various trends and scenarios in the microfinance industry with special reference to West Bengal and the Northeast region; addressing the challenges and possible solutions to overcome them.

The recent RBI-released guidelines for the new regulatory framework in microfinance are expected to bring traction and flow in the steady demand and asset quality improvement. The industry has witnessed a robust rebound post COVID in 2022-23 with a growth of 79.7% in loan disbursement during the first quarter of FY 23 on a year-on-year basis. This growth is likely to continue because of the conducive policy, pent-up demand and branch network expansion.

This year’s session is expected to be attended by the MFI practitioners, regulators and funders to discuss most pertinent issues facing the sector. The Summit aims to bring together the national and global community of stakeholders, particularly lenders and Investors, to discuss current and future aspects of financial inclusion, and how digital aspect can be integrated in a client friendly manner.

Discussions in the 7th Eastern India Microfinance summit 2023 will focus on the following themes:

Inaugural Session: The inaugural session will discuss the key issues around the main theme of the Summit “The Next Gen Microfinance - Role of digital technology in the evolving roadmap of Microfinance”. The key issues discussed in this session will include:

- How can digital transformation help in achieving financial Inclusion?
- A retrospective on the past historical learning and how the MFIs can step into the evolving landscape ahead.
- What are the key trends and scenarios in the microfinance industry after the new regulatory framework in 2022?
- How will MFIs cope with the underlying opportunities and challenges in seeking digital transformation?
- What can be the best possible practices in Indian microfinance to navigate the evolving digital landscape

Session – 1: Role of emerging technologies and digital rails in enabling transformation for MFIs

- The stakeholders in the MFI industry such as FinTechs, regulators, government and SROs have a key role to play in the digital transformation of the industry. The industry can also rely on a number of technology initiatives and digital rails that have facilitated easier identity, reach and information access for traditionally underserved customer segments. This session will explore the opportunities the digital rails provide to the MFI industry.
- Identity rails: How can MFI players utilize innovations through Aadhar, E-KYC and other identity rails to streamline reach and on boarding?
- Data rails: Can initiatives such as the account aggregator framework, and OCEN significantly propel MFI disbursements and risk management?
- Transaction rails: With continued innovations in the UPI and payments space through APBS, AEPS, what are their opportunities for MFIs to capitalize on?
- Discuss other upcoming initiatives that could impact the MFI space, such as the role of PDP (Personal Data Protection Bill), Digital Personal Data Protection Bill, other data regulations, and cyber security requirements.

Session – 2: Way forward: Reimagining the future state and strategic roadmap to achieve inclusion: In this session, we invite the panellists to crystal ball gaze at the target future state of the microfinance industry over the next 5 years and what would be the strategic initiatives and enablement required to build the road map. What is the ideal future state of the microfinance industry in 5 years?

- What are the capabilities that MFIs need to develop in order to achieve this vision (talent, technology, partnership and innovation strategy. etc)
- What are going to be the top three enablers, (for example regulations, capital access. etc) from the larger MFI ecosystem to achieve this vision?

Session – 3: Analyzing the financial inclusion landscape (customer segment, macroeconomic trends) Financial inclusion ensures access to essential financial services for the underserved section of society. MFIs play an important role in improving financial inclusion by addressing the credit gap which exists in the ecosystem through the provision of micro-credit This panel focuses on the current state and trends being witnessed for the

different ecosystem stakeholders in the MFI landscape (borrowers, lenders, donors, regulators and government). Key topics discussed by the participants will include:

- **Demand side:** What are the current trends that we are witnessing on the demand side for micro financial products such as micro-credit, micro-savings and investments (demand size and growth trends, customer segment archetypes, needs and requirements driving microfinance demands, impact of COVID on the demand)
- **Supply-side:** What are the current trends that we are witnessing on the supply side – growth trends in the number of MFI players, overall industry AUM (Asset Under Management) trends and scenarios, the growing role of banks, NBFCs and FinTechs in the MFI landscape
- Learnings from other emerging economies such as Bangladesh, Brazil and Kenya
- Role of government and regulators in enabling and supporting the MFI landscape through policies, public digital infrastructure goods, and various market enablement initiatives. (Examples of existing initiatives that have been helpful)
- Current funding trends from institutions and multi-lateral agencies for raising capital by MFIs to rationalize the cost of capital and meet the current microcredit demand.

Session – 4: Opportunities vs. challenges for MFI across the value chain: A typical lending value chain consists of functions such as customer acquisition, on boarding, risk assessment and underwriting, disbursement, loan service monitoring and collections. These sections will deep-dive into discussing some of the challenges, the role of technology to address these challenges and resulting opportunities across the value chain.

- Discuss some of the key challenges related to customer reach and acquisition, data aggregation and risk assessment from credit bureaus and other sources, last-mile delivery and servicing, collections and risk management, talent development, access to lower cost capital etc
- Opportunities to overcome these challenges through technology, partnerships and regulatory support through policy intervention.
- Discuss the various success stories/case studies of innovative approaches to address these challenges.

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 March 2022. 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 March 2022, 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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