Proceedings and Recommendations

The 4th National Seminar on Microfinance: Issues and Challenges

16-17 October 2015

Bankers Institute of Rural Development, Lucknow

Contents

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1.0 Introduction

The Department of Economic Analysis and Research (DEAR), National Bank for Agriculture and Rural Development (NABARD), Head Office, Mumbai and the Bankers Institute of Rural Development (BIRD), Lucknow jointly organised the Fourth National Seminar on Microfinance: Issues and Challenges at BIRD, Lucknow during 16-17 October 2015.

The following three themes were deliberated upon during the two days seminar:
(a) Microfinance in periods of disasters and areas of ecological distress
(b) Bearing of multiple financing and over financing on the recovery performance of microfinance clients.
(c) Other Issues relating to microfinance viz., urban microfinance, transaction costs, etc.

A total of 19 papers were presented covering the above three themes spread over three technical sessions followed by a panel discussion on future road map and the valedictory session. The Schedule of the Seminar is attached as Annexure. In total, 376 delegates participated in the National Seminar including participants from Banks, Non-Governmental Organizations (NGOs), Government of India, Government of Uttar Pradesh and other states, Academics including students, Reserve Bank of India (RBI), Small Industries Development Bank of India (SIDBI) and NABARD.

2.0 Proceedings of the Seminar

The Seminar was inaugurated by Chaudhary Birender Singh, Hon'ble Minister of Rural Development, Panchayati Raj, Drinking Water and Sanitation, Government of India in the august presence of Dr Harsh Kumar Bhanwala, Chairman, NABARD; Shri Atal Dulloo, Joint Secretary, Ministry of Rural Development, GoI & National Mission Director, National Rural Livelihood Mission (NRLM); Shri H. R. Dave and Shri R. Amalorpavanathan, Deputy Managing Directors, NABARD; and Dr D V Deshpande, Director, BIRD, Lucknow. The session wise detailed proceedings of the Seminar are presented below:

2.1 Inaugural Session

The programme started with the welcome address by Dr D V Deshpande, Director, BIRD followed by lighting of lamps by the dignitaries on the stage. Dr Deshpande mentioned in retrospect that first National Microfinance Seminar of BIRD was organized on 25 July 2009 and it was inaugurated by Dr C Rangarajan, noted economist and Former Governor, Reserve Bank of India.

A song symbolizing changing environment of women empowerment through Self-help Groups (SHGs) was presented by members/representatives of two SHGs. Theme of the song was denial of basic resources, discrimination, importance of having a choice of their own by women, questioning injustice and ushering in the upscaling of micro finance movement of and for women.

This was followed by sharing of experiences by Ms. Priya Kushwah and Ms Sangeeta Kochale, representatives of Priyasakhi Mahila Sangh (PMS), Indore, Madhya Pradesh. They mentioned that their SHGs were promoted by the PMS. Bank Sakhi model has been implemented by Regional Rural Bank (RRB) through PMS. The Bank Sakhis are SHG members trained to work as Business Correspondent (BC). So far, 6109 on-line bank accounts have been opened by BCs with transactions of over Rs.1.00 crore. Besides 1700 offline accounts have also been opened by BCs. Under the Prime Minister Jan Dhan Yojana (PMJDY), this BC has opened 320 bank accounts (fixed deposit), 310 Recurring Deposit accounts and 639 insurance accounts.

Dr H K Bhanwala, Chairman, NABARD, welcomed the Hon’ble Minister of Rural Development, Panchayati Raj, Drinking water and Sanitation, Government of India and other dignitaries on the dais, namely, Shri Atal Dulloo, Joint Secretary, Ministry of Rural Development, GoI & National Mission Director, National Rural Livelihood Mission; Shri H. R. Dave and Shri R. Amalorpavanathan, Deputy Managing Directors, NABARD; and Dr D V Deshpande, Director, BIRD, Lucknow, as also others in the audience. He mentioned that BIRD was associated in the earlier programmes of Government of India i.e., Swarnajayanti Gram Swarozgar Yojana (SGSY) and has also contributed in developing the NRLM concept. Modern India has a rich tradition of rural development efforts of its own conception like Community Development Programme, Integrated Rural Development Programme (IRDP), Area Development Programmes, Watershed Development Programmes, SGSY, NRLM, etc. Shri Bhanwala highlighted that the SHG-led microfinance had played an important role in achieving the two most important Millennium Development Goals viz., (i) eradicating poverty & hunger and (ii) women empowerment. He informed that India had improved on the severity of hunger and had bettered off from ‘Extremely Alarming’ to ‘Serious’ category. However, India is still a home to the highest number of hungry people in the world, at 194 million, surpassing China, according to United Nations Annual Hunger Report, 2015.

Dr Bhanwala opined that the recent dormancy and Non-Performing Asset (NPA) issues in SHG bank linkage programmes might be addressed with various steps in consultation with all the stakeholders. He also informed that NABARD was actively working on digitization of SHGs as a pilot. This would successfully bring a whole new dimension by inculcating in more transparency, better maintenance of records, monitoring and providing credit facilities to SHGs. It would also facilitate seamless communication between SHGs and other stakeholders including Government, Banks, Microfinance Institutions (MFIs)/Non-Governmental Organizations (NGOs) and the private sector.

Before delivering his inaugural address, the Hon’ble Union Minister released two prestigious publications (i) the seminar issue of THE MICROFINANCE REVIEW, a half yearly journal brought out by Centre for Microfinance Research (CMR), BIRD, Lucknow and (ii) Micro Finance Year Book 2015-16, published by MCID, NABARD, HO. Hon’ble Minister also inaugurated the E-Learning Module on Self Help Groups of BIRD, Lucknow.

In his inaugural address, the Hon’ble Minister appreciated the efforts of NABARD in providing leadership and handholding support to the microfinance sector and credited it with success of SHG movement in furthering financial inclusion and women empowerment in the country. He also complimented BIRD for its commendable job in the sphere of training of various stake holders in the area of agriculture and rural development. He emphasized that the role and importance of microfinance was immense as the poor depended on small loan for various economic activities and consumption needs in the rural area. Microfinance had made a significant achievement by its coverage of more than 10 crore families in rural areas. While highlighting the role of PMJDY in taking banking services to the people, he stressed that the financial unification through financial inclusion is far more important than the political unification.

The Hon'ble Minister stressed that there was a need to have a newer approach to SHG movement, i.e. of "thinking big" instead of SHGs doing petty, small activities. The activities of SHGs had to be up scaled so that the economies of scale could be observed. This could be "speeded up" with the introduction of new technologies available for the purpose. He also advised to introduce mechanisms to monitor that internal lending by SHGs was not marred by high rates of interest, as high as 36%. He opined that the interior villages are yet to be covered by SHG movement. Agencies should reach out to the interiors as well. To the apathy of banks towards borrowers, the Hon'ble Minister suggested inculcating the value of "trust and faith" by banks just as credit worthiness of borrowers/ members was emphasized hitherto. He also opined that despite nationalisation of banks, access of common man (with or without SHG) to bank credit was still a dream even as group "leader" competed-out the members in benefitting from the group. He also suggested that NPAs of SHGs should not be highlighted too much as other sectors do have bigger NPAs. He urged the panelist, researchers, experts and other stake holders to think innovative and bring new and affordable products and ideas which would meet the present and future requirements and aspirations of the rural areas/ population. Presenting a stark divide that existed between the rural and urban India, he recalled in retrospect that Sir Chotu Ram, the legendry leader of the peasants, had started agrarian reforms during the period of British Government in India. The Minister expressed concern that despite nationalization of banks in 1969, banking system did not provide adequate access of credit to the common man (with or without SHG and before and after microfinance movement).

Prior to inauguration of the Seminar, the Hon'ble Minister also inaugurated an exhibition in which SHGs, banks and technology providers had displayed their products. He exhorted the SHGs to upscale their activities.

While presenting the vote of thanks, Shri H R Dave, DMD, NABARD summarized the message of Hon'ble Minister and suggested that while the institutions including NABARD and MFIs were contributing a lot towards microcredit, still there were miles to go. People's aspirations had been far higher than the actions taken thus far by the agencies. DMD recapitulated the message of Hon'ble Minister which emphasized – 'thinking big'. He recalled that earlier it was the branch managers who used to go to the villagers to offer loan (farmers were ignorant), today it is the farmers who ask bank managers which loan or insurance product he wanted to avail. DMD thanked all the agencies and participants which accepted the invitation of the organizers and had attended the seminar.

2.2 Technical Session-I: Microfinance in Periods of Disaster and Areas of Ecological Distress

The session was chaired by Shri Atal Dulloo, Joint Secretary, MoRD, GOI & National Mission Director, NRLM, GOI and the panelists were: Shri B M Misra, Principal Advisor, Department of Economic and Policy Research, Reserve Bank of India, Mumbai; Prof Charan Singh, IIM Bangalore; Shri S Ramakrishnan, CGM & Country Head, SIDBI Foundation for Micro Credit, Lucknow and; Shri G R Chintala, CGM, MCID, NABARD, Mumbai. Six papers on the theme and three other papers on diverse subjects were presented in this session.

The first paper on **'Microfinance in Distressed Areas of J&K, Rajasthan and Andhra Pradesh: Some Issues'** was presented by Dr Gyanendra Mani and Ms Suparna Tandon. This paper attempted to understand as to how effectively microfinance interventions helped group members to sustain themselves during periods of disaster and in ecologically distressed areas. The multiplicity of Self-Help Group (SHG) promotion schemes/ institutions and the difference in financial benefits accruing therefrom has been found to have encouraged the migration of a significant number of SHGs/ Women Self-Help Groups (WSHGs) promoted under the National Bank for Agriculture and Rural Development (NABARD) format to the National Rural Livelihoods Mission (NRLM) format. The major issues emerging from field visits and requiring attention were, lack of need based credit support to groups, apathy from banks and denial of credit by some branch managers to SHGs, insufficient credit for income generating activities on account of various reasons, good number of groups not practicing/ not allowed to practice internal lending, etc.

The paper suggested that the solution to addressing the inequities in the various microfinance approaches lies in Ministry of Rural Development (MoRD) agreeing to extend financial support available under NRLM to all the SHGs in a district, irrespective of the SHG promoting institution/ model. The possibility of facilitating out a new set of work allocation between MoRD and NABARD might be explored taking the entire process of livelihood promotion in the country to a higher plane. Further, since the extant microfinance initiatives had not been able to provide an adequate coping mechanism to the SHG members during the periods of disaster/extreme stress and the rural poor barely manage to stay above subsistence levels only because of the extant social security schemes, such as Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), food subsidy under the National Food Security Mission (NFSM), and interest subvention, as a solution, therefore, a two pronged strategy is recommended, comprising (i) a microfinance product specially designed for disaster-prone areas aimed at ensuring a viable productive unit and (ii) enhanced social security measures in such areas in terms of number of schemes with higher ceiling for various programmes.

The second paper on '**Evaluating the Role of Microfinance in Mitigating the Problems of Distress Out-Migrants: A Study in KBK Districts of Orissa**' by Dr S. N. Tripathy indicated that the microfinance is an attempt to improve access to small deposits and small loans for poor households neglected by banks. Microfinance offers the financial discipline as a possible avenue to make a significant difference in the lives of millions of poor people. Orissa, despite its abundant natural and skilled human resources, has been one of the poorest states in the country. The study concludes that microfinance through SHGs is a viable alternative in involving the community in tackling the crisis originating due to failure of crops or natural calamity, particularly in distressed areas like Koraput, Bolangir and Kalahandi (KBK).

Shri S S Sangwan and Shri Gagan Deep in their paper '**Drivers of Self-Help Group Approach: Lessons from Comparative Performance of Himachal Pradesh and Haryana**' had compared the implementation and impact of Self-Help Groups (SHGs) in the hilly state of Himachal Pradesh (HP) and Haryana in terms of participation by families of different social and economic status, stabilities of membership, documentations by the groups, regularity of their meetings and savings and process of decision making, to bring the driving forces behind the above functions by the SHGs. The findings reveal that the management of SHGs was better in HP in terms of regularity of meeting and savings which are corner stones of their success. Grading before financing was done for all SHGs in HP while in Haryana 18% SHGs were not graded. The repeated loans by SHGs were more in HP than in Haryana, though loan as revolving cash credit was more in Haryana then HP. The NGOs in HP were the main motivating agent for better implementation and sustenance of SHGs in HP while SHG promotion in Haryana was mostly through DRDA under SGSY.

Dr Mohinder Kumar,in his paper '**Distinct Models of SHG Micro-Enterprises Organised in Diverse Regions of Jammu and Kashmir'** presented the findings of a field study of micro-enterprises of Self-Help Groups (SHGs), formed under Swaranajayanti Gram Swarozgar Yojana (SGSY) in Jammu and Kashmir (J&K). Findings revealed three distinct models of micro-enterprises evolving in SHGs in three different regions, of which two models appeared as distortion and one model adhered to SGSY guidelines. Viewed in larger context, varied models of SHG micro-enterprises are reflective of social ethos of each region to be in tune with coping strategies adopted by rural people for survival against adversities in particular regions. Ladakh region has developed SHG micro-enterprises which operated largely on "joint-cooperative" lines. SHG micro-enterprises in Kashmir valley are mostly operated as "Employer-Employee Enterprises" (EEE) based on private employment relations developed between group leader assuming the role of employer and group members acting as wage-employees in SHG. In Jammu hilly region, SHG micro-enterprises are mostly characterised as "owner-operator units" of each member in SHG operating on independent individual lines. Resting on three distinct models of micro-enterprises, SHGs earn fairly good income for survival by way of joint-employment, wage-employment and self-employment relations developing within SHG framework in different regions of J&K.

Shri Samir R Samantara in his paper '**Microfinance in Areas of Ecological Distress – Evidence from the Field**' examined the question of convergence in financial inclusion development during 2004-2014 using β-convergence and σ-convergence techniques. The results do suggest that some of the comparatively low-financial inclusive districts, if not all, have been able to catch up with the high-financial inclusive districts, demonstrating β-convergence. Although the growth of financial inclusion drive varied across the districts, the average speed of convergence remained more or less equalled during both the periods. However, inter-district differences in growth of financial inclusion drive have significantly declined in the state indicating σ-convergence. These tendencies are likely to continue in financial inclusion drive in Arunachal Pradesh unless the mission approach is adopted to speed up the financial inclusion drive. All stakeholders should jointly create an ecosystem so as to improve credit absorption capacity of people in Arunachal Pradesh.

Shri R N Barman in his paper '**Linking Farmers' Access to Microfinance, Input and Service Delivery Systems with Crop Production Performance: A Study in the**

Disadvantaged Areas of North Bank Plains Zone of Assam' attempted to analyse the impact of linking institutional microfinance, inputs and adoption of modern technology in raising the net farm returns of farmers as also various constraints in linking credit and input delivery services with production of important crops and livestock in the disadvantaged areas of North Bank Plains (NBP) zone of Assam. The study explores the scope for innovations in harnessing the potential for increasing credit and input demand. The study indicates a close linkage between the credit and quantum of input use. The study recommends establishing more rural bank branches and adequate skill building of farmers for proper utilisation of credit.

2.3 Other Papers during Session I

Three other papers as mentioned earlier were presented during the session. The briefs about these papers are as follows:

Shri G R Chintala in his paper entitled '**Digitization of SHGs for Success of Microfinance in India** highlighted that the SHG-Bank Linkage Programme had been pursued as a potential platform for poverty alleviation in India. SHGBLP requires maintenance of a strong, transparent and up to date information system of SHGs on both financial and nonfinancial parameters which could generate various returns and reports for information of its stakeholders. Digitization could make the information easier to preserve, access, analyse and generate various reports, and share it with stakeholders, financers, development agents, researchers, policymakers, etc. This could reduce the transaction costs by minimising the need for human resources for maintenance of volumes of physical records. NABARD has launched a pilot project for digitization of SHG data base under project EShakti which envisages mapping of the existing SHGs in the district (bank wise, branch wise) by capturing of detailed financial and non-financial information about the SHG and its members and uploading them through a customised software.

Prof H S Shylendra in his paper on "**Institutions of the Poor: A Critical Assessment of the Role of Federations of SHG**s" defined "federations" as "institutions for sustaining SHG movement". The study proposed that NRLM may like to bank on Federations for progress of SHG movement. In this connection, three questions were posed: theoretical rationale of federations; role of federations; and how to take these federations forward. Three types of federations of SHGs were outlined, viz., Primary (village / cluster level) Federations; Secondary (block/ taluka level) Federations; and Tertiary (district/ state level) Federations. Further, other basic questions with regard to Federations were raised: Should there be Federations?; What should be their structure?; what should be their timing of emergence/; and what policy/ legal framework was required for Federations?

Dr. Amar K J R Nayak presented a paper on "**Has Micro Finance Freed the Poor from its *Prey*?: Converging Micro Finance with GP Level Producers Organizations**". According to the presenter, term "prey" hitherto referred to was for village moneylender even as this paper was posited in backdrop of rural Odisha, based on inductive approach to research carried-out by author intensively in one single Gram Panchayat (GP) over the past nine years. He posed these questions to seek answers as these were addressed in his presentation: (i) What are other "preys" besides moneylenders in village?; (ii) how these preys operated?; and (iii) Is Micro Finance competitive with moneylenders? According to the author, villagers did have other mechanisms of survival besides Micro Finance. And institutions were "putting the poor more at risk if these institutions of micro finance tried to wean the poor away from moneylender” since they had to take last resort to the moneylender after excluded/ abandoned by MFIs. He emphasized on the need to have convergence of SHGs / MFIs with GP level Producers’ Organizations (PO) so that poor members had ready access to their own production base at community/ GP level –to be sustainable. He proposed through his research that PO could be at GP level (for production) or Block level (for value addition) or at the most District level (for selling/ marketing). He suggested that PO of SHG should not go beyond district level.

Comments of Panelists

Shri B M Misra, Principal Advisor, Department of Economic and Policy Research (DEPR), RBI presented his views on papers presented during the Session-I as follows: Only general comments on term “distress” were made, with focus primarily on farmer to which he proposed to align the question of SHGs and their problems. He observed that Session-I did not have any paper on Vidarbha region or even on Maharashtra State as this region had very serious problem of distress. He focused for a greater part of his remarks on farmers’ suicides issue even as SHG issue was not touched upon since share of farming in Gross State Domestic Product (GSDP) had declined to 17%. According to him natural calamity induced psychological changes were high in the mindset of farmers due to which they committed suicides. Then Shri Misra switched over to “factor” analysis of farmers suicides by proposing that first causal “factor” was irrigation, followed by rising wages of agricultural wage laborers (that significantly added to farmers’ operational costs). Towards the end, the panelist opined that Micro Finance could not be a “charity” as earning profit was important.

Prof. Charan Singh presented his views on the papers and presentations made in Session-I mentioning that the theme on micro-finance was topical and timely. He remarked that presentations showed that “excellent work was being done in Arunachal Pradesh, J&K, Andhra Pradesh and other States” characterized by natural distress. Panelist expressed that he was impressed by work of NABARD people in the area of MF. However, on weaker side, findings missed on “demand-side” of micro finance in all the nine papers presented during Session-I. Even supply side details were found absent by the panelist. “Reasons” behind observed phenomena were also found missing by Prof. Charan Singh. He expected something more than tabular data to answer these questions: What happened? Where did it happen? What were the reasons? How much lending was required? Who will supply? How it will be supplied? The panelist expected research observations to focus on the roadmap for future, “role of SHGs”, “what will happen to banks?” Shall they vanish from the scene? Presentations did not touch upon the question: If moneylenders were exploitative why and how could after all did them exist so far? He ended his views by a remark: “minimize the layers; do not bring more layers”.

Shri S Ramakishana from SIDBI remarked that deliberations in first technical session were “really fruitful” and he “learned a lot”. He agreed with all the improvements suggested by Prof. Charan Singh, co-panelist. Most of the presentations were observed as data based and needed to be updated. Based on study findings, he suggested that banks needed to be more “creative” to bring out more loan products by ascertaining “field needs” (felt needs of the prospective borrowers) even as “old financing pattern” was becoming outdated. He questioned: Is group dynamics / group lending still relevant? Can banks join hands with moneylenders? According to him it was not possible since banks had to follow procedures of financial discipline and loaning. He suggested for more thoughts and thinking on future patterns (modes) of financing by banks to microfinance clients.

Shri G R Chintala, as a panelist, expressed views that the seminar was well organized. Many papers presented in the session were “out of research”. After listening to these papers, he remarked, his faith in SHG movement had grown manifold. He expected more evidences to be gathered in research papers for more clear findings. He opined that “players were immaterial” in SHG movement though movement itself was going to stay “forever”. Only few “improvements” were needed in the form of use of “technology” to strengthen SHG movement.

Chairman of technical session-I, Shri Atal Dulloo, Joint Secretary, Ministry of Rural Development (MoRD), GoI expressed that all the nine papers presented by authors gave “factual details” from the field in respective States of the study, with analysis and their “own recommendations”. While summarizing, he sorted out take aways from the session-I presentations as under:

- There is scope for “improvement” in SHG movement that started with SHG-BLP, then SGSY, WSHG and NRLM.
- Banks still do not see SHGs as viable funding opportunity
- There was regional differentiation in growth of SHG movement since Uttar Pradesh which had 22% of India’s population had share of 2.9% in banks’ credit to SHGs at all India level.
- SHGs could be used for insurance and pension services.
- For extended outreach of SHGs for their relevance, it was desirable that social security schemes should be expanded as complementing SHG program by convergence of such schemes with NRLM.

2.4 Technical Session-II: Bearing of Multiple Financing on the Recovery Performance of Microfinance Clients

The session was chaired by Shri M P Vasimalai, ED, Dhan Foundation, Madurai and the other panelists were: Dr H S Shylendra, Prof, IRMA, Anand and; Shri A K Panda, CGM, NABARD, UP RO and; Dr D V Deshpande, Director, BIRD. Five papers on the 2nd theme were presented in this session.

Dr Gopa Kumaran Nair G in his paper on **Multiple Group Memberships and its Effect on Repayment of Loans: A Case Study of Thiruvananthapuram District in Kerala** indicated that contribution of SHG-BLP to social re-engineering and access to banking services in India was unrivalled. Alongside the positive attributes, he observed that the SHG-BLP has been misused, at least in some corners of the country. To take the advantage of benefit of being a group member, it had become a common practice, especially in SHG intensive areas to be part of several groups and avail facilities like credit and social security programmes from multiple sources. The present study threw light on the extent of such multiple membership in Thiruvananthapuram district in Kerala and highlighted different facets of the issue. Multiple membership was observed to be with a major objective to avail credit from various sources which had culminated into larger indebtedness among the members. The study revealed that borrowing from multiple sources had not influenced repayment of loans taken by groups as repayment was linked strongly with factors other than income generated through group activity. However, borrowing from multiple sources was found to have a bearing on repayment of loan taken directly by the member and other aspects of the working of the group.

Shri Sunil Puliyakot and Shri H K Pradhan in their paper on '**Competition, Multiple Borrowing and Over- Indebtedness in Microfinance: An Empirical Investigation'** argued that there was an active debate among the practice and policy circles about the risk of indebtedness among the borrowers created by micro-lenders. This debate had come up in the light of many crises the industry had faced in the recent past in many parts of the world which are active microfinance markets. Among many causes fuelling the crisis, multiple borrowing and over-indebtedness were reported to have played an active role. Therefore, an attempt has been made to explore the role of competition in triggering multiple borrowing and over indebtedness among the borrowing population. Based on a unique primary data set collected from an active microfinance market as a part of an ongoing study, it was found that there was a very high incidence of multiple source borrowing. Further, all indicators of borrower indebtedness measured as ratios of income as well as liquid assets of the borrowers were found to be positively and significantly associated with competition in the microfinance market, implying the need for strong policy interventions in regulating the market.

Ms Vinita Kalra in her paper on '**Determinant of Repayment Problems of Microfinance Clients — A Case Study'** highlighted that Microfinance clients manage to repay their loans on time because they go through unacceptably high personal sacrifices. Instead of delaying or stopping repayments when idiosyncratic shocks hit and debt service becomes unmanageable, borrowers absorb these shocks with personal suffering. In this case, what looks as a success from a risk management point of view is a serious concern from a social point of view. This paper investigates the determinants of loan repayment problems of microfinance clients in the research area. By using logistic regression model, this paper finds that the clients' socio-economic characteristic (education, housing index, annual household income), loan characteristics (average loan outstanding, group size, repeated borrowing) and business characteristics (mismatch of cash flow pattern and repayment frequency) are the factors contributing to micro-credit loan repayment problems among microfinance clients.

Dr D V Deshpande, Dr K C Sharma and Dr Gyanendra Rout in their paper on '**Comparative Study of Self-Help Group Bank Linkage Model and Microfinance Institution Model in Raibareli District of Uttar Pradesh**' indicated that there were mainly two models of microfinance delivery in India - SHG Bank Linkage Programme (SBLP) and Micro Finance Institutions (MFIs). The issue of Non- Performing Assets (NPAs) remained vital in both the models – SBLP and MFI led SHGs. This study examined various aspects of recovery performance of microfinance clients and other relevant aspects. The study is based on a comparison of SHGs supported by Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP) and those financed by Sonata Finance Private Limited, a MFI operating in Raibareli district. The findings show that recovery from members of both RGMVP SHGs and Sonata Groups was high. The cases of multiple financing were very few in the study area. The findings support the view that if an initiative like RGMVP is present, problem of NPAs in SBLP can be addressed properly.

Mani Arul Nandhi in her paper '**Repayment Performance and Costs of Defaults in a Group Lending Programme – A Case Study in Urban Microfinance'** indicated that repayment incentives for a good borrower would disappear under joint group liability when there was an expectation that a significant number of group members would default. Besides, the unilateral focus of Microfinance Institutions (MFIs) to achieve high repayment rates, among other factors, might lead to wilful defaults with hidden costs for regular repayment clients. The paper explored the hidden delinquency behind the 100% repayment performance of an urban MFI. In particular, the study looked at the extent of loan delinquency among borrowers of an MFI located in a peri-urban area of Uttar Pradesh, and the financial and non-financial costs of such defaults borne by repayment clients. Findings indicated that the recovery mechanism with an additional 'joint centre liability' feature ensured 100% on time repayment record (OTRR) with no financial costs due to hidden delinquency for the MFI. The costs of delinquent or default clients fell on the regular repayment poor clients. It was found that the cost of borrowing for the repayment clients increased from 18% to 30%; and the average cost for each repayment client was found to be Rs. 49.70 per week, besides the non-financial costs like personal hardships in arranging money to repay the defaulter's share, time and energy lost in unsuccessful attempts to recover from the defaulters who had run away or moved away.

Comments of Panelists

Dr D V Deshpande indicated that contrasting findings of empirical studies were on account of differences in institutional arrangement, geography and people practicing the microfinance. The motto 'Development through Credit' needed to be propagated once again.

Shri A K Panda indicated that multiple borrowing should not be an issue if it was within the repaying capacity of the borrowers. How much is too much has to be assessed by the borrowers as well as the lenders. Savings (not the thrift) should be used to repay the loans. Over-financing is always a problem and leads to default although group mode is better from recovery angle due to peer pressure. Poor have to take an informed decision and, hence financial literacy should be addressed by all the stakeholders. It is the responsibility of the lender to ensure that poor climb the economic ladder so that they moved from thrift to savings. Quality of groups can be ensured by handholding support for capacity building and counselling of the groups.

Prof H S Shylendra indicated that the sample size of the study should be in proportion to the programme. He opined that debts was being imposed on poor, sometimes. He was of the view that financial literacy would be an important tool in educating the poor. He opined that there was a need to think as to how to regulate the multiple borrowing. He also indicated that the credibility of the microfinance sector had to be retrieved again.

The Chairman of the session Shri M P Vasimalai indicated that presenters made presentation with rich content. He informed that microfinance started with negative balance and went on adding to make it positive. He emphasized the need to assess the total market of microfinance loan and see the share in institutional sources. He told that the portfolio management was the need of the hour at the client level as we were dealing with high risk clients. He told that exploitative rate of interest needed to be controlled. He also added that motivation of client to come out of poverty is important. He stressed that at the time of calamity, rephasing of loans would be required.

2.5 Technical Session III: Other Issues relating to Microfinance

The session was chaired by Dr P Kotaiah, Former Chairman NABARD and the panelists were: Prof M S Sriram, IIM, Bangalore; Shri Manoj Sharma, Director, MicroSave, Lucknow; Shri M V Ashok, CGM, DEAR; Ms Archana Mittat, Director, MUPA and; Dr DV Deshpande, Director, BIRD, Lucknow. A total of five papers were presented in this session.

Ms Pinky Dutta and Debabrata Das in their paper '**Determinants of Operating Expense of Microfinance Institutions: A Study on Select MFIs in Assam'** highlighted that Operating Expenses were the largest component of total cost of every Microfinance Institutions (MFI). It has direct impact on the interest rate on microcredit extended by the MFIs. This study examines the trend in operating expenses of seven selected MFIs in Assam, for the period 2009-10 to 2013-14, based on the data collected from 46 NBFC branch offices and 15 branch offices of NGO-MFIs. It finds significant variation in operating expenses of NGO-MFIs and NBFCs. Regression analysis shows that the type of MFI, lending model of the MFI, number of active borrowers and number of borrower per staff have significant impacts on the operating expenses of MFIs.

N Srinivasan in his paper '**Transaction Costs of Lending to Vulnerable People'** indicated that the real cost of loans under microfinance from different sources was a matter of discussion for long due to its variation across the agencies concerned. Components such as delivery mechanism, staff, scale of business, size of loan, frequency of repayment, investment in technology used and infrastructure, etc. influenced the cost of loan in addition to cost of fund and risk cost involved. Studies carried out to understand the cost structure in providing credit to rural areas and microfinance clients observed that the cost of public sector banks in providing small loans to customers was much higher compared to private sector banks. Studies also revealed that Indian MFIs had been much more efficient than the global counterparts with their operating expenses ratios lower than the global levels. The paper suggests that the MFIs that seek to maximise profits are required to reduce their transaction costs and widen the gap between operating costs ratio and the margin cap. The objective of delivering credit at reasonable interest rates to vulnerable borrowers could not be achieved by managing transaction costs alone, finance costs have to be reduced for which government may have to think of providing targeted subsidies. In absence of Shri Srinivasan, the paper was presented by Shri A K Srivastava, Faculty Member, BIRD.

Shri Narayan Chandra Pradhan and Ms Prabha V Jadavin their paper '**Outreach and Financial Performance of Select MFIs in India – An Empirical Analysis'** examined the recent developments in Microfinance Institutions (MFIs) from two standpoints:(i) enlarged customer outreach, and (ii) financial viability for longer term sustainability. Both these issues are dealt analytically as well as empirically. The findings revealed that about 18% of the total population are utilising a loan from MFIs at present. In the wake of Andhra Pradesh crisis in 2010, MFI segment has taken a severe beating with rising delinquency ratios and downgrades by rating agencies. Lenders have turned wary leading to drying up of funding channels seriously impinging on the business. Debt is positively related to return on equity (ROE) which implies that higher borrowing actually encourages profitability for the MFIs as it allows them to grow its assets and thereby see a larger return. The gross loan portfolio variable indicates that the MFIs should continue to grow and increase their size by increasing their loan portfolio. While the provision of funds for potential loss is a good safety measure, the generally high repayment rates by borrowers make the risks taken and the risk parameter not significant. Finally, the number of borrowers is negatively correlated with ROE indicating that goals of customer outreach and financial sustainability are moving in opposite directions.

Shri K Raja Reddy, TCS Reddy and S. Prahalladaiah in their paper '**Community Based Microfinance: A Study with Reference to Urban Women Self-Help Groups in Andhra Pradesh and Telangana'** covering the groups promoted under Mission for Elimination of Poverty in Municipal Areas (MEPMA). It has facilitated about 3 lakh self-help groups (SHGs) covering 32 lakh women in 189 municipalities and 19 municipal corporations in the undivided state of Andhra Pradesh. About 80% of SHGs availed credit linkage with banks at least once since inception. Besides, SHGs disbursed loans to their members from group corpus as well as external credit sources - slum level federations (SLFs) and Sthree Nidhi Credit Cooperative Federation Ltd. The present study covering 2,000 SHGs in 40 towns in 10 districts of AP and Telangana indicated that there were some serious issues like (i) impounding of large funds in SHG SB accounts, (ii) poor credit linkages with slum level federations and Sthree Nidhi, (iii) distribution of member savings/ group funds and revolving fund and (iv) defaulting to banks. A large number of SHGs and SHG members have, however, benefited with microfinance services, especially savings and credit services.

Dr S L Kumbhare in his presentation entitled **'Urban Microfinance in Maharashtra – Some Issues'** indicated that social capital was less in urban areas and therefore banks needed an intermediary between them and the clients. Political affiliation in urban areas was a problem. The sample members (plumbers, painters, carpenters, etc.) provided on-line service in urban areas at door step and now they were moving from simple activity to complex activities. He emphasised the need for following Panchsutra, training and rotation of leaders for healthy growth of SHGs in urban areas.

Comments of Panelists

Prof M S Sriram indicated that papers presented during the session had brought out good insights on transaction cost. He was of the view that there was a positive relation between vulnerability of the groups and the transaction cost. However, with the increase in number of transactions, the transaction cost should comes down.

Shri M V Ashok opined that NABFINS could be an example for other as it was giving loan at 16 per cent rate of interest. He suggested that there was a need to have a credit+ approach including financial literacy, as also providing support in production and marketing of the produce. He highlighted the good work being done by Mann Deshi Foundation started by Ms.Chetna Sinha in 1996 in Satara District to bring some work back to drought-prone areas of rural Maharashtra.The Foundation run a Rural Business School. It has a 'Mann Deshi Mahila Sahakari Bank'with seven branches run by and for women which provides loans, savings plans, pension and insurance to 25,000 entrepreneurs every year.

Ms Archana Mittal, Director, Urban Poverty Alleviation (UPA), MUPA indicated that our policies were being challenged on various counts. She indicated that in case of urban poverty alleviation programme, age limit was not prescribed but interest subvention was a challenge. She also indicated that although banks needed intermediary but there was no provision for this in UPA scheme. There is a need to work as to how to bring in intermediaries between banks and the clients to have better understanding between the two.

Shri Manoj Sharma, CEO of MicroSave indicated that there was a need to have a credit focussed methodology with final outcome as credit plus approach. He suggested that to bring down the cost, the delivery channel should have multi-products approach. We should not be obsessed with the cost as the clients were more concerned with the timely availability of the credit. Future is going to be technology based which might reduce the cost. Convergence among Govt, MFIs and Banks is necessary to reduce the cost.

Dr P Kotaiah, the Chairman of the session, suggested that the methodology of analysing Transaction Cost needed to be looked into afresh. The concept of fixed operating cost is not possible and it will compromise the mission. However, we cannot have inefficiencies in the system. More studies can be done at optimal cost among various models. If costs are not adequately compensated, MFIs will drift from their mission. He suggested that interest subvention should be at the institution level and not at the group level. Subvention should be through capital infusion without anticipating a return on the capital. Urban groups have to be developed by capacity building or else quality will be poor. If quality of group is poor, it will lead to greater financial risk. All developmental cost can be supported by government agencies. He also suggested that self-regulatory mechanism was the need of the hour. The present regulatory mechanisms have not succeeded and, therefore there was a need to have a fresh approach on regulatory and supervisory aspect of Microfinance.

2.6 Panel Discussion –Future Road Map

The panel discussion was chaired by Shri H R Dave, DMD, NABARD and the panelists during the session were: Shri V L V S S Subba Rao, Economic Advisor-I, DFS, Min of Finance GOI; Shri P Satish, CEO, Sa-Dhan, New Delhi; Shri M Kalyanasundaram, International Network of Alternative Financial Institutions (INAFI) and; Shri K K Gupta, Consultant, BIRD, Lucknow.

The session discussed three very relevant issues: (i) Are existing policies & guidelines enough to ensure social and economic empowerment in all the regions in the country? (ii) Is there a need to have a uniform guideline for SHG promotion irrespective of the promoting institution? (iii) Whether a single MIS to capture the performance of SHG promotion can be ensured throughout the country?

It was opined by the panellists that SHG movement was started to provide financial services to poor people and other dimensions were added later.

Shri VLVSS Subba Rao, Economic Advisor-I, Department of Financial Services (DFS), Ministry of Finance (MoF), GoI opined that poor have a basket of requirements but the formal banking sector could not penetrate in rural areas to the deserved extent. Therefore, MFIs came into the picture and fulfilled the role to a certain extent. Now, the cost of fund is an issue to extend the services to poor. He told that Jan Dhan Yojna had unlocked the potential and 18 crore new accounts had been opened. Further, Jan Suraksha Scheme followed quickly. The livelihood had to be ensured by various schemes. He said that newly launched Mudra Yojna has already disbursed 56 lakh loans and therefore, the small and micro business segment is moving. Banks are tying up with Post Offices for outreach of small and micro loans. In the years to come, SHGs would become redundant, unless the technology helped them in delivering individual financial services. In that scenario, MFIs would need to realign their focus.

Shri P Satish, Executive Director, Sa-Dhan indicated that urban microfinance had overtaken rural microfinance amidst MFIs in terms of both clients & volumes. Source of alternate financial services will have to play a role in spite of outreach of formal credit delivery system. Microfinance should encompass the soul of development – social and other developmental aspects to be taken care of. Out of 250 million poor households in the country, 110 million poor households had already been reached by SHGs and MFIs. In SHG-BLP, the banks should focus on the rate of interest which was a sensitive issue for the clients. Now, private sector banks have also realised that SHG-BLP is a viable business proposition. He suggested that we should leave the choice to the people as to which institution should exist.

Shri Kalyansundaram, Executive Director International Network of Alternative Financial Institutions (INAFI) opined that microfinance development finance and it is not a charity. He talked about three perspectives (i) development perspective (ii) institutional perspective – SHG quality, networking of SHGs, federations of SHGs and (iii) financial perspective – deepen credit intensity. In a broader context, by 2030, poverty has to be eradicated and all roads should lead to bank linkage. MFIs have to play a complementary role.

Shri K K Gupta, former CGM, NABARD opined that there were various models that existed for SHG promotion and there was a need to conduct a study on as to which model should be the best. As far as SHG promotion is concerned, four points are very important – (i) social mobilisation (ii) financial education and democratic decision making (iii) financial transactions and record keeping (iv) livelihood and microenterprises. All these four areas needed quality research. He stressed the need for study as to how to realign and enhance efficiency of SHGs in villages in the aftermath of PMJDY. Ensuring access of poor in rural areas to other financial services like over draft and pension schemes could be another area of research. He suggested that Centre for Microfinance Research in BIRD, Lucknow could focus on some of these research areas.

During the session, two women microfinance leaders from Chhattisgarh State who had been awarded with Padmashree for their pioneering work for upliftment of rural poor through microfinance also shared their views and approach adopted by them.

Shri H R Dave summed up the discussion by giving due weightage to the viewpoints of all the panellists of the session.

2.7 Valedictory Session:

The session started with Shri D V Deshpande, Director, BIRD presenting the important recommendations of the two days seminar.

Shri R Amalorpavanathan, DMD, NABARD while talking about the future strategies stated that SHG programme started as credit linkage programme and not as a poverty alleviation programme and now livelihood dimension had been added to it. Although movement gained in South India but now it was picking up in Many States. A new Ministry has been formed in West Bengal to take care of SHG movement. He said that federations started as non-financial intermediaries but now they were also acting as financial intermediaries. He opined that NGO led SHGs could not succeed now unless business managers took over the movement to new heights. NABARD has now added the concept of ‘Producers Organisations’ which would be of great advantage to SHGs. He also indicated that lot of corporates are showing interest in SHG formation for their CSR advantage. He also raised the issue of NPA in SHG accounts and told that NPA was not in the DNA of SHG movement and it had been imported from outside like weeds come along with the seeds. We should find ways to manage the NPA level. He raised the issues of MFIs not passing on the benefits of interest cut to the ultimate clients. He suggested that there should be a cap on return on investment or return on capital.

Shri R Amalorpavanathan also informed the house that in every sanction to MFIs, NABARD would be going to put two conditions (i) gender sensitisation and (ii) environmental safety. He further highlighted that technology is going to play a big role in the next five years' time. Now it is time to switch over to mobile based technology, Iris of eye enabled services in order to speed up the SHG movement as well as to reduce the cost. Every mobile would shortly become an ATM itself. He opined that development has not only an individual perspective but a social perspective as well. All the stakeholders in the microfinance sector have to come together to share the responsibility.

The Chairman of the Session, Shri Vijay Mahajan, CMD of Basix, indicated that there was a need to remove the contradictions which remained for the last 30 years in the microfinance sector. He opined that NGOs were an important ingredient in the microfinance sector and they survived on grants which were limited and therefore, they managed to get loan and subsidies which increased the cost of delivery. He opined that NABARD deserved all the credit for the SHG movement but civil society institutions' role should not be undermined as they had played a very important role in SHG movement. He was of the view that social research and development did not happen in Government sector, could not happen in corporate sector and certainly could not happen in banking sector. But this happens in NGO sector. He informed that initially MFIs thought that they could lend to SHGs at a rate less than that charged by the moneylenders. But this did not happen as the role was taken over by those who had less interest in the development of the sector.

He opined that no attempt had been made so for to calculate the cost of lending taking into account the overall cost of the system, even in the formal system. He told that although SHG were getting loan at 4-5 per cent per annum, the borrowers were still getting at 24 per cent. We should calculate lending cost by taking into account the financial cost, subsidies, cost of people involved in the promotion & nurturing, other promotional costs, etc. He also observed that there was a gross inequality in utilisation of loans by SHG members. Shri Mahajan highlighted the role of credit bureaus like CIBIL, CRIF High Mark, Equifax India and Experian that provided credit information services in accordance to the CICRA Act of 2005.

At the end, Shri Sunil Chawla, Joint Director, BIRD proposed the vote of thanks to all those involved in organising this seminar and also the participants who had come all the way from different places to attend this seminar. He made particular mention of the Chief Guest, Chairman NABARD and the panellist including those who chaired various sessions during the two day National Seminar.

The recommendations of the Seminar are presented below:

3.0 Recommendations of the Seminar

3.1 Inaugural Session

1. There is a need to have a newer approach to SHG movement, i.e. of “thinking big” instead of SHGs doing petty, small activities. The activities of SHGs have to be upscaled so that the advantage of economies of scale is observed. This can be “expedited” with the introduction of new technologies available for the purpose.

2. Role of village moneylenders and merchants/traders engaged in informal credit in rural areas is often talked about. A clear policy framework from State Government authorities towards Moneylenders is needed. RBI may consider having a debate on the issue and if found suitable, it may think of issuing suitable norms and guidelines to the banks in this regard.

3.2 Microfinance in Distressed Areas and SHG-BLP

3. The multiplicity of approaches (NRLM/ SBLP and other state specific approaches like that by SERP, MPOWER, etc) and agencies for SHG promotion / livelihood support have led to the migration of SHGs from one agency to another agency. There is need to evolve a single programme for the entire country by way of convergence of strengths and best practices of various models under implementation. However, while formulating a nation-wide policy, specific provisions may be inbuilt into the system to take care of special areas like distressed areas, localised social/ecological ethos of the States. Policy may also underline that the groups promoted by various agencies should be NRLM compliant. Further, a similar scheme to that of NABARD for tracking and revival of dormant SHGs may be incorporated as a component in the NRLM Scheme too.

4. A single MIS may be devised for all SHGs in the country capturing the details of all the SHGs promoted and credit-linked by various agencies. It should be made mandatory for the promoting agencies to upload information/profile of all the SHGs/ Members.

5. An institutional arrangement between Ministry of Rural Development and the Ministry of Skill Development & Entrepreneurship, Ministry of Textiles, Cooperative Dairy Federation, and like-wise agencies, to be considered for convergence of resources and to ensure skill development of SHG members in a time bound manner.

6. Members who have graduated to enterprise levels may be allowed to dissociate from the group, upscale his/her chosen activity on his own or facilitated in forming/joining a PO if same activity is being pursued by many members in a given radius/ cluster. A time bound Action Plan to facilitate graduation of group members to entrepreneurship levels, say maximum of six years, is required.

7. Villagers and SHG members (basically small and marginal farmers) quite often face the problem of lack of asset insurance, particularly crop insurance. Therefore, securitization of loan by SHGs could be thought of.

8. To complement the efforts of SHGs, there is a need to expand coverage as well as the financial benefits under various social security schemes by their convergence with NRLM, particularly in the distressed areas and during the distressed period.

9. To minimize under-financing/over-financing (i) equal distribution of funds withdrawn from corpus should be limited to internal lending stage only (ii) SHPIs should make an attempt to convince the groups to distribute the bank loan availed by them as per the need of the individual members for investment and working capital requirements (iii) bankers and SHPIs may assess realistic credit and training needs of SHG members and implement the microenterprise/livelihood plan in a phased manner (iv) SHPIs may identify one/two major Income Generating Activities (IGAs) which have adequate potential, market, as well as good linkage support and encourage group formation around these activities.

10. Most of the farmers in distressed areas don't go for the Crop Insurance due to various reasons. As there is no other risk mitigation measure available to them, it hits the farmers very hard during the period of distress. It is suggested that it should be made compulsory not only for the farmers but also for the financing agencies to ensure the insurance of crops/ other assets and also the renewal of assets.

11. Due to various types of distress conditions in areas like Koraput, Bolangir and Kalahandi (KBK) region of Odisha, out-migration from the region is very common. A holistic approach is needed for migration prone poverty stricken households of distressed regions which should comprise of skill formation, creating multiple avenues of employment, confidence building in mitigating recurring droughts, crisis management, more access to micro-finance and investment guidance as well as marketing support.

12. Studies are required to be conducted to analyze the demand and supply side features of financial needs at the individual level, SHG level or at federation level and steps have to be taken to fulfil the gap, so as to make the whole micro-finance initiative sustainable at the individual, SHG and federation levels.

13. RBI/NABARD have made numerous efforts towards awareness creation and capacity building of SHPI/ bankers pertaining to nurturing and financing of SHGs. These efforts have to be continuous in nature as some of the bankers are not aware of the latest guidelines on SHG promotion and financing.

14. There is a skewed development of SHG programme in different States and regions. There is a need to evaluate State-wise gaps in data on SHG promotion and take corrective action to promote SHG-BLP. SLBCs should take necessary steps in this regard.

15. With the entry of small finance banks and payments banks also the existing local area banks and universal banks, there will be a competition and the SHG will have choice. On the other side, the money lenders are still doing the business. Existing Bank products are unable to compete with them and they remain intact. It is suggested that banks need to be more "creative" to bring out more microfinance loan products by ascertaining "field needs" (felt needs of the prospective borrowers) even as "existing financing pattern" was becoming outdated.

16. The initiative of digitization of SHGs (of NABARD termed as E-Shakti, is a good beginning. The E-Shakti project once completed, may facilitate Branch Managers to take suitable decisions by providing necessary information required for sanctioning and renewal of loans. This can also help the bank / branch manager in sanctioning loans to individual SHG members when they graduate from group loan to individual microenterprise loans and other loans.

17. SHGs have demonstrated that there is a need to extend continuous doses of credit and they can grow on a sustainable basis even without subsidy also. Therefore, the banks need to support the SHGs on a continuous basis at least for 4 to 5 years till they establish some enterprise of their own or join a 'Producer Organization'.

18. Lack of information at the level of banks, lack of monitoring, lack of touch with the SHG members are the main causes for NPAs. Banks need to improve the mechanisms to be in touch with the SHGs.

19. Many institutions have already made their presence felt for SHG promotion and many institutions will come in future too. Existing players need not worry as the agenda of all these institutions will be to address poverty, bring economic improvement and empower the women. Since the agenda is common, it is suggested that all the players working in an area need to work in close coordination and facilitate each other's efforts in this regard.

20. Our outreach needs to be up-scaled, may be through bringing technology to reach out to the unreached. 'Bank Sakhi–BC model' along with Dual Authentication Technology for SHG operations as innovated by NABARD and GIZ may be one of the options to reach out to the people in remote areas. It will not only bring SHGs on a growth path but will also speed up the process of financial inclusion.

3.3 Multiple Financing

21. Availing credit facilities from more than one sources was reported in some studies. There is a need to put in place a centralized directory of SHG members and to be made available to the banks/MFIs/NBFCs to avoid too much exposure of bank credit to a single microfinance borrower/group. To curb the problem of multiple borrowing among clients which enhances the probability of loan default, the policy option for MFIs is to collaborate in the creation of a credit reference bureau for all their clients.

22. Inadequate credit from institutional sources and too many formalities involved in availment of bank loan from formal banking system by SHGs have been shown as one of the major reasons for increased dependence on MFIs for credit at higher cost. There is a need to have a relook on formalities involved in sanctioning of SHG loans and simplify them so as to encourage SHG members to approach banks for credit linkage.

23. Banks may also need to consider, liberally, for financing SHG members (in addition to group based loan) by sanctioning composite loan depending on their past performance as a SHG member.

24. An immediate imperative on the part of the policy makers is to regulate competition and modify operational practices to make the microfinance sector more flexible towards the borrower needs without compromising on the risk parameters. The microfinance sector may be brought under direct supervision on the lines of banking supervision in order to ensure that operational practices will not entail increased financial risks.

25. It is also imperative that MFIs design loan products for planned expenses of the households. For meeting unplanned household expenses, a mix of savings and micro insurance products should be developed by MFIs. Clients also need to be educated about the importance of savings over the micro-credit in meeting unplanned household expenses.

26. All the stakeholders have to ensure that microfinance clients who are needy and repaying their loans regularly should get priority over the others from the lenders.

27. Well-functioning MFIs should be allowed to accept small deposits from members so that the members are encouraged to save small amounts beyond regular repayment of loans.

28. Over-financing has always been a problem which leads to default although group mode has been found better from recovery angle due to peer pressure. Poor has to take an informed decision and, hence financial literacy should be addressed to by all the stakeholders. It is the responsibility of the lender to ensure that poor climb the economic ladder so that they move from thrift to savings. Quality of groups can be ensured by handholding support for capacity building and counselling of the groups.

29. There is a need to assess the total market of microfinance portfolio and also to take portfolio management at the client level quite seriously as we are dealing with high risk clients. Exploitative rate of interest needs to be checked. At the time of calamity, re-phasing of loans is required. Further, there is a need to assess the total market for other financial services such as savings, insurance, pension, etc.

3.4 Other Issues in Micro Finance

30. To reduce the operating expenses, MFIs could increase the number of active borrowers, keeping the staff strength constant. This would reduce the personnel expenses of the MFIs.

31. In order to increase the borrowing capacity of the SHGs, steps like, more focus on ‘capacity building’ of groups, ensuring ‘leadership rotation’ at all levels, encouraging multiple savings products, etc. need to be implemented earnestly.

32. It is very important that MFIs choose their new borrowers very carefully. It is also important to introduce incentives for established borrowers to encourage them to avail big loans. The idea of increasing ‘Return on Equity’ without increasing the client base would negate the outreach goal of MFIs.

33. The entry of private equity in the microfinance sector has resulted in an urge for higher profits by MFIs with consequent high interest rates and the emergence of some of the

areas of concern like conflict between objectives of outreach and profitability. MFIs may consider roping in more skilled staff while planning to upscale their funding and portfolio size so that they grow on a sustainable basis.

34. It is necessary to widen the resource base from which MFIs are funded in respect of the Net Owned Funds needed for capital adequacy. A budgetary provision for “Social Capital Fund” may be initiated with the help of Government which can be directed for investment in MFIs with social performance norms.

35. MFIs should restrict themselves from the risky lending and the reliance on commercial borrowing may be brought down to the bare minimum in the pursuit of more social funding. The policymakers need to create environment that fully utilizes microfinance as a development tool for future poverty reduction.

36. There is positive relation between vulnerability of the groups and the transaction cost. However, with the increase in number of transactions, the transaction cost comes down. All the stakeholders need to take this into account while formulating any strategy for SHG promotion.

37. There is a need to have a credit-focussed methodology with final outcome as credit plus approach. To bring down the cost, the delivery channel should have multi-products basket. Convergence of Govt, MFIs and Banks may help in this regard.

38. The methodology of analysing Transaction Cost is to be looked into. The concept of fixed operating cost is not possible and it will compromise the mission. However, we cannot have inefficiencies in the system. More studies can be done at optimal cost among various models. If costs are not adequately compensated, MFIs will drift from their mission. It is suggested that interest subvention should be at the institution level and not at the group level. Subvention should be through capital infusion without anticipating a return on the capital. Urban groups have to be developed by capacity building or else quality will be poor. If quality of group is poor, it will lead to financial risk. All development cost can be supported by government agencies.

39. The self-regulatory mechanism is the need of the hour till more formal regulatory mechanisms are put in place for regulating the microfinance sector.

3.5 Future Road Map

40. In the present technology led environment, for SHGs to sustain and gain further heights, it is imperative that technology applications have to be utilized to take the movement to new heights. Bank Shakhi-BC Model mentioned earlier is an example to replicate elsewhere.

41. NABARD has now added the concept of ‘Producers’ Organisations’ which will be of great advantage to SHGs.

42. The MFIs are not passing on the benefits of interest cut to the ultimate clients and therefore, there should be a cap on return on investment or return on capital.

43. Although SHGs are getting loan at 7 per cent, the borrowers are still getting it at 24 per cent. There is a need to calculate the lending cost by taking into account the financial cost, subsidies, cost of people involved in the promotion & nurturing, other promotional costs, etc.

44. There is gross inequality in utilisation of loans by SHG members, this needs to be corrected.

45. The role of credit bureaus like CIBIL, CRIF High Mark, Equifax India and Experian are going to be very important in the days to come. The stakeholders in the microfinance sector should make use of these bureaus in order to assess the credit absorption capacity of microfinance borrowers.

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Annexure

Seminar Schedule

4th National Seminar on Microfinance in India- Issues and Challenges

(16-17 October 2015): BIRD, Lucknow

Day 1 (16 October 2015)

9.00 hrs -10.00 hrs	**Registration & Introduction**
Inaugural Session Anchor: Dr Shikha Tripathi	
10.00 hrs – 10.10 hrs	**Welcome by** Dr. D V Deshpande, Director, BIRD
10.10 hrs – 10.15 hrs	**Lighting of the lamp**
10.15 hrs – 10.35 hrs	**Experience Sharing:** Women SHG members from Madhya Pradesh
10.35 hrs – 10.50 hrs	**Special Address by** Dr. H.K. Bhanwala, Chairman, NABARD
10.50 hrs – 11.00 hrs	Release of Seminar Issue of **'THE MICROFINANCE REVIEW'**
11.00 hrs - 11.30 hrs	**Address by Chief Guest** Shri Chaudhary Birender Singh, Hon'ble Minister of Rural Development, Panchayati Raj, Drinking Water and Sanitation, GOI
11.30 hrs - 11.40 hrs	**Thanking the Guests** Shri H R Dave, Deputy Managing Director, NABARD
11.40 hrs – 12.30 hrs	**Tea Break**
Technical Session –I Anchor: Dr K C Sharma **Microfinance in Periods of Disasters and Areas of Ecological Distress** **Chairman of the Session:** Shri Atal Dulloo, Joint Secretary, MoRD, GOI & National Mission Director, NRLM, GOI **Panelists:** (i) Shri B M Misra, Principal Adviser, Department of Economic and Policy Research, Reserve Bank of India, Mumbai (ii) Prof Charan Singh, IIM Bangalore (iii) Shri S Ramakrishnan, CGM & Country Head, SIDBI Foundation for Micro Credit, Lucknow (iv) Shri G R Chintala, CGM, MCID, NABARD, Mumbai	
12.30 hrs – 12.45 hrs	**Paper-I**: Microfinance in Ecologically Distressed area of J&K, Rajasthan & A.P. states: Some Issues by Gyanendra Mani & Suparna Tandon, Dy General Managers, Deptt of Economic Analysis & Research, NABARD, Mumbai
12.45 hrs – 13.00 hrs	**Paper-II:** Evaluating the role of micro-finance in mitigating the problems of distress out-migrants: A study in KBK districts of Orissa by S N Tripathi, Professor, Gokhale Institute of Politics & Economics, Pune
13.00 hrs – 14.00 hrs	**Lunch Break**
14.00 hrs – 14.15 hrs	**Paper-III:** Performance of SHGs in area of Ecological Distress vis-a-vis Plains by S.S Sangwan, and Gagan Deep, SBI Chair, Centre for Research in Rural and Industrial Development, Chandigarh
14.15 hrs – 14.30 hrs	**Paper IV:** Income Generation, Employment and Social Goals of SHG Micro Enterprises for Survival of Vulnerable Rural People amid Adversities in Jammu & Kashmir by Mohinder Kumar, AGM, NABARD, Jammu & Kashmir

14.30 hrs - 14.45 hrs	**Paper V**: Microfinance in areas of Ecological Distress of Arunachal Pradesh – Evidence from the field by Samir R Samantara, Faculty Member, BIRD, Lucknow
14.45 hrs – 15.00 hrs	**Paper VI:** Linking Farmers Access to Microfinance Input and Service Delivery System with Crop Production Performance: A study in the Disadvantaged areas of North Bank Plains Zone of Assam by R N Barman, B N College of Agriculture, Assam Agricultural University, Assam
15.00 hrs -15.15 hrs	**Paper VII:** Digitization of SHGs for a success of Microfinance in India by G R Chintala, CGM, MCID, NABARD, Mumbai
15.15 hrs – 15.30 hrs	**Paper-VIII:** Federations of SHGs: Lessons learnt and Way forward by H S Shylendra, IRMA, Anand, Gujarat
15.30 – 16.00	**Tea Break**
16.00 hrs – 16.15 hrs	**Paper IX:** Has microfinance in India freed the poor from its prey? Converging microfinance with GP Level Producer Organisation by Amar KJR Nayak, Xavier University, Bhubaneswar.
16.15 -17.30	**Views of Panellists & Summing up by the Chairman of the Session**
19.00 – 21.00	**Cultural Evening**

Day-2 (17 October 2015)

Technical Session –II Anchor: Shri P. Dinesh **Bearing of multiple financing and over financing on the recovery performance of microfinance clients** **Chairman of the Session:** Shri M P Vasimalai, ED, Dhan Foundation, Madurai **Panelists:** (i) Dr H S Shylendra, Prof, IRMA, Anand (ii) Shri A K Panda, CGM, NABARD, UP RO (iii) Dr D V Deshpande, Director, BIRD.	
09.30 hrs – 09.45 hrs	**Paper-I:** Multiple group membership and its effect on repayment of loan by Gopa Kumaran Nair, DGM, NABARD, Mumbai
09.45 hrs–10.00 hrs	**Paper-II**: Competition, Multiple Borrowing and Over-indebtedness in Microfinance: An Empirical Investigation by Sunil Puliyakot, Amrita School of Banking, Coimbatore and H K Pradhan, XLRI School of Management, Jamshedpur
10.00 hrs – 10.15 hrs	**Paper-III:** Determinant of Repayment Problems of Microfinance Clients —A Case Study By Vinita Kalra, Rajarshri School of Management & Technology, Varanasi
10.15 hrs – 10.30 hrs	**Paper-IV:** Comparative Study of Self Help Group Bank Linkage Model and Microfinance Institution Model in Raibareli District of Uttar Pradesh by D.V. Deshpande, Director; K.C. Sharma, Faculty Member and G. Rout, AGM, BIRD, Lucknow
10.30 hrs -10.45 hrs	**Paper-V:** Repayment Performance and Cost of defaults in a Group Lending Programme –A case study in Urban Microfinance by Mani Arul Nandhi, Associate Professor and Head, Department of Commerce, Jesus and Mary College, University of Delhi, New Delhi
10.45 hrs – 11.45 hrs	**Views of Panellists & Summing up by the Chairman of the Session**
11.45 hrs - 12.00 hrs	**Tea Break**

Technical Session –III Anchor: Shri M.R. Gopal **Other Issues Relating to Microfinance** **Chairman of the Session:** Dr P Kotaiah, Former Chairman NABARD **Panelists: (**i) Prof M S Sriram, IIM, Bangalore (ii) Shri Manoj Sharma, Director, MicroSave, Lucknow (iii) Shri M V Ashok, CGM, DEAR (iv) Ms Archana Mittal, Director, MUPA	
12.00 hrs – 12.15 hrs	**Paper-I:** Operating Expenses: A cause of Concern – Study on select MFIs in Assam by Pinky Dutta & Debabrata Das, Tezpur University, Assam
12.15 hrs – 12.30 hrs	**Paper-II:** Transaction Costs of Lending to Vulnerable People by N Srinivasan, Independent Consultant, Pune
12.30 hrs– 12.45 hrs	**Paper-III:** Outreach & Financial Performance of Select MFIs in India – an Empirical Analysis by Narayan C Pradhan & Prabha V Jadav, Reserve Bank of India, Ahmedabad
12.45 hrs – 13.00 hrs	**Paper-IV:** Community based microfinance in the Urban Areas of Andhra Pradesh & Telengana State –An Experience of Women SHGs by K Raja Reddy, TCS Reddy and S Prahalladaiah, APMAS, Hyderabad
13.00 hrs – 14.00 hrs	**Lunch Break**
14.00 hrs -14.15 hrs	**Paper-V:** Urban Microfinance in Maharashtra: Some Issues by S L Kumbhare**,** CGM (Retd), NABARD, Pune
14.15 hrs – 15.15 hrs	**Views of Panellists & Summing up by the Chairman of the Session**
Panel Discussion: Future Road Map **(15.15 hrs – 16.30 hrs) Anchor: Ms Shikha** Issues: (i) Are existing policies & guidelines on SHG promotions comprehensive enough to ensure social & economic empowerment of rural poor in all the regions of the country in a given time frame? (ii) Is there a need to have a uniform guideline for SHG promotion irrespective of the promoting institutions – particularly the financial benefits in terms of Rate of Interest & revolving fund assistance? (iii) Whether a single MIS to capture the performance of SHG promotion can be ensured? **Chairman of the Session**: Shri H R Dave, DMD, NABARD **Panelists**: Shri V L V S S Subba Rao, Economic Advisor-I, DFS, Min. of Finance, GOI Shri P Satish, CEO, Sa-Dhan, New Delhi Shri M Kalyanasundaram, International Network of Alternative Financial Institutions (INAFI), Bangalore Shri K K Gupta, Consultant, BIRD, Lucknow	
16.30 hrs – 17.00 hrs	**Tea Break**
Valedictory Session: Anchor: Ms Richa Bajpai	
17.00 hrs -18.00 hrs	**Recommendations of Seminar:** Dr D V Deshpande, Director, BIRD **Future Strategies:** Shri R Amalorpavanathan, DMD, NABARD **Valedictory Address:** Shri Vijay Mahajan, Basix India, Hyderabad
18.00 hrs – 18.10 hrs	**Vote of Thanks:** Shri Sunil Chawla, Joint Director, BIRD, Lucknow