

Bankers – MFI Exposure Visit Report in Odisha

MFI – Annapurna Microfinance Pvt. Ltd

Under
Poorest States Inclusive Growth (PSIG) Programme



Date: 23rd August'2014

Bhubaneswar, Odisha



1. Introduction:

The DFID supported Poorest States Inclusive Growth (PSIG) programme is being implemented by SIDBI to enhance the income and employment opportunities of the poor households in four of the underserved states viz Bihar, Odisha, Uttar Pradesh and Madhya Pradesh. The key purpose of the program is to improve income and reduce vulnerability of poor people and small producers by expanding their access to finance and markets. The PSIG programme it is envisaged to benefit the poor and vulnerable people, especially women, in the above low-income states, providing financial access to 12 million poor by way of capacity building of MFIs, facilitating technology led models, product development and roll-out, setting up risk funds etc. ACCESS-ASSIST, a specialised affiliate of ACCESS Development Services for Financial Inclusion has been assigned the task to coordinate the policy component of the programme in the above four states and at national level. One of the identified priorities within PSIG policy mandate is to undertake initiatives leading to enhanced flow of funds from banks to microfinance, for both the MFI and the SHG channels. In line with the programme mandate, ACCESS-ASSIST has been organizing various thematic workshops, roundtable discussions, consultative meetings etc. at both national and state levels, involving different key stakeholders and facilitating constructive and forward looking discussion specifically between banks and MFIs for increased funds flow to the microfinance sector.

2. Need for the Bankers-MFI Exposure:

Adequate and timely funding support plays a critical role for the growth and sustainability of microfinance program and facilitates greater financial inclusion in the process. The major sources of funding for MFIs in India have traditionally come by way of debt from apex lenders and banks, social and commercial equity financing from donors and investors. As bank lending to MFIs for on lending to SHGs, JLGs and individuals were recognized as part of priority sector lending, the banks increasingly provided loans to MFIs for this purpose, which also helped to fulfil their priority sector lending targets. However, post Andhra Pradesh crisis in 2010, the fund flow from banks to MFIs across the country, including in Odisha, was severely affected. While banks have resumed lending since 2012, in Odisha the fund flow is still affected, mainly because of pending NPA with a few state level MFIs. As reported, there are 17 MFIs including 7 local institutions operating in Odisha at present. Collectively they have reached out nearly 1.5 million active borrowers with a loan outstanding of Rs.1214.59 crore as on March' 2014 in the state. It is encouraging to see that a few public and private sector banks including Canara Bank, IDBI Bank, Deena Bank, IOB Bank, YES Bank etc have resumed their lending to MFIs in the state sensing the business opportunity.

In all consultative meetings organized so far with the Bankers, the need for orientation for state and regional level bank officials on the business model and operations of MFIs was expressed. Specifically in Odisha, during the last thematic workshop on "Accelerating Financial Inclusion through Microfinance-An Interface with Banks & Financial Institutions (Dec'2013), one of the suggestions made was to organize exposure programme for bankers to MFIs in order to have better understanding on their field operations. Thus, as a follow-up of that the 1st Bankers-MFI Exposure programme was organized on 23rd August'2014 under SIDBI-PSIG in Odisha. The Annapurna Microfinance Pvt.Ltd (AMPL), one of the leading and potential local level NBFC-MFI kindly agreed to

host the exposure programme. ACCESS-ASSIST coordinated the exposure programme. The key objectives of the exposure programme were,

3. Objectives of the Bankers-MFI Exposure Visit:

- Familiarize bankers on the MFI operation, management practices, MIS, risk mitigation mechanism, client protection measures, functions of the branch etc of the MFIs
- Facilitate direct interaction of the bankers with SHG members/borrowers in order to have better understanding on their group, loan and enterprise management etc
- Solicit feedback from bankers on the overall microfinance operation with specific areas on which the MFIs should work more to attract bank lending

4. Methodology Adopted:

The 1st banker's exposure programme in Odisha was organized in a collective manner. In order to facilitate the programme effectively, 2-3 rounds of preparatory meetings were held among the state SIDBI-PSIG, ACCESS-ASSIST and AMPL teams. A brief Concept Note (attached) was developed and shared with all stakeholders. ACCESS-ASSIST team also met the Regional Director, RBI, apprised him about the idea of organizing such an exposure programme to MFI for PSU bankers and solicited his valuable inputs on that. The team also met SLBC Convenor, up-dated him and sought his guidance for the event. Later on the team visited all the PSU banks, met with the Regional Heads, shared the concept note and requested them to participate in the one-day exposure programme. Based on their initial consents, SIDBI-PSIG, Delhi office was requested to send out the Invites to all the Regional Heads. As per the suggestions of majority of the banks, 23rd August' 2014 (Saturday) was finalized for the date of exposure and the detailed activity for the day was worked out. (Agenda attached).

5. Participants in the Bankers-MFI Exposure Programme.

It was very encouraging to see that as many as fourteen senior bankers from various banks viz. State Bank of India, Bank of India, Union Bank, Canara Bank, IDBI Bank, Syndicate Bank, Indian Bank, Central Bank of India, Oriental Bank of Commerce and Dena Bank participated in the event (list attached). Despite her prior commitments, Smt. Puspamitra Sahu, DGM-RBI joined the team in the meeting at Hotel Trident, listened to the feedback shared by the participants-bankers and provided her valuable inputs. A few other banks could not take part in the event mainly due to their busy involvement in the currently going-on Jan Dhan Yoyana. However, they would take part in the 2nd exposure programme, scheduled for next month.

6. Proceedings of the Day:

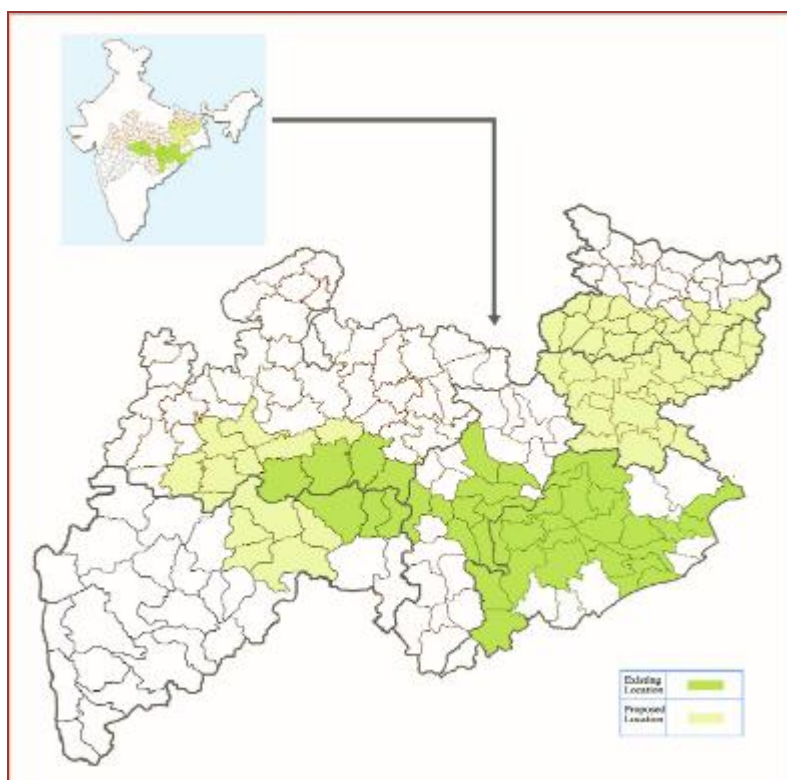
6.1. Sharing of an Overview of AMPL at HO:

At the outset, Mr. Rajesh Kumar, AGM-SIDBI-PSIG welcomed the bankers and other dignitaries for the event at AMPL HO. Mr. Narendra Nayak, Associate Director, ACCESS-ASSIST thanked the bankers for their kind participation and also explained the objectives of the exposure programme. Mr. Govind Pattanaik, CEO, AMPL also welcomed the Delegates and asked Mr. Satyajit Das, Chief Finance

Manager, to share the overview of AMPL. Accordingly Mr. Satya made an elaborate presentation covering the historical background of AMPL, its organisational structure and microfinance programme, the current status-outreach, portfolio outstanding, products, services, funding partners, systems & procedures, risk management mechanism, social performance management etc. (PPT attached). According to him, AMPL has been one of the leading and fastest growing NBFC-MFI among the home grown MFIs of Odisha. The prime thrust of the organisation is to work for the betterment of the socio-economically backward women through inculcating a saving habit among them as well as encouraging the women groups to engage themselves in market-driven business activities.



Mr. Satya Das, CFO presenting the overview of AMPL to the Delegates at MFI Head Office



Operational Areas & coverage of AMPL across four states in India

AMPL has already made its presence in 26 districts in Odisha and also recently expanded outside the state. At the moment the Operations of AMPL are being managed through 80 branches. It has more than 2 lakhs of active borrowers with total outstanding of Rs. 201 Crores as on July 2014. AMPL has been continuously working on to improve its governance, systems & procedures, responsible finance measures, client protection mechanism, risk mitigation, product designing and HR development etc.

Having observed to the presentation, bankers appreciated the efforts of AMPL to reach out to a sizable segment of poor clients especially in Odisha. They also expressed their satisfaction on the HR-policies, systems, MIS etc developed and used by AMPL in tracking and managing the portfolio. However, their main queries were related to the interest rate, profitability, PAR calculation and internal as well as external audits. Mr. Satya and other senior management team members of AMPL responded to these queries raised by the bankers.

❖ State Covered:	4
❖ Dist. Covered:	37
❖ Block covered:	207
❖ Gram Panchayats Covered:	2112
❖ Villages Covered:	12,000
❖ Total SHG's:	25511
❖ Active SHG's:	19188
❖ Total Members:	240554
❖ Total Borrowers:	204101
❖ Portfolio outstanding:	201 Cr
❖ SC%:	27%
❖ ST%:	18%
❖ Minority%:	5%
❖ No of Branches:	80
❖ Disbursement Branch:	65

6.2. Branch Visit-Baliana & Khurda:

Following the presentation at the HO, the whole team of Delegates, got divided in two groups, were taken to two different branches of AMPL based out at Baliana and Khurda blocks under Khurda District. The bankers were introduced with all the staffs handling different roles at the branch. Responding to a query on how they select a branch office, the staff explained about the initial survey

of the areas along with identification of a suitable place for setting up the branch office. In order to finalize the location, AMPL usually considers various criteria including centrally located, reasonably good building having at least 1500 sq. ft., availability of Bank facilities, electric supply, telephone etc, and then make House agreement for minimum of 3 years. The normal house rent of a branch ranges from 5-8 thousands.

In the process the bankers were shown all the nitty-gritty of branch operations which include overview on the operational areas under the branch, identification/formation of SHGs, purpose of SHG loan, loan processing, collection of repayment from borrowers, MIS/data entry, and tablet based application for real-time data entry, coverage of credit-life insurance etc.



Bankers at the Baliantha Branch of AMPL

A variety of interesting queries were raised by the Delegates at the branch level, some of them are given in the box below;

- Who are the members in the SHGs-male/female or both? How do you select group members?
- Why AMPL maintains the group profile having the individual member information of SHGs?
- What's the portfolio size of the branch? How do you disburse the loan?
- Is the loan given to the group as a whole or separately to each member of a SHG?
- What are the economic activities usually the SHGs here follow?
- Do you monitor about the income generating activities of SHGs?
- What is the duration of a loan cycle?
- What is the interest rate charged? Do the SHG members able to repay that?
- How do you rate SHGs?
- What's the benefit of being enrolled with a Credit Bureau?
- What is KIVA and how do they lend AMPL?
- What's annual profit or sustainability rate of the branch?
- Can you show us the tablet application and its functionalities?
- What kind of MIS does AMPL have at the branch level?

- In which language the loan application format is developed?
- Why do you disburse the amount in cash?
- Why don't you open individual member accounts in the bank and then deposit the disbursement amount?
- What are the documentary evidence does AMPL maintain in respect to the disbursement and at the time of repayment?

The Branch Manager and other staff of AMPL responded well to each of the query from the bankers. The bankers were very pleased to see that the repayment rate of the SHGs to AMPL was >99%. Close rapport building with the members, easy loan processing, simple documentation, availability of door step delivery of services, collection of repayments from the group locations, regular loan monitoring and guidance to SHGs etc have been the facilitating factors for that.

6.3. Visit to SHGs & Interactions with the Members:

Having spent more than an hour in the branch, the bankers then visited 2-3 SHGs. They interacted with the group members and tried to elicit responses from them regarding the very purpose of the group formation, age and number of memberships, savings and credit status, need and purpose for loans that they take from AMPL, how they utilize and repay the loan on time, viability of the business activities etc. The SHG members undertake various household economic activities with the timely credit from AMPL which were instrumental in showcasing their respective products. Both individual and group activities are being carried out by the members; however, individual enterprises are preferred more. The entire family members get involved in the business activities and try to make that profit making for them. The members explained on their own how the association with and support from AMPL have changed their economic status through the last 4-5 years. One of the problems that came out of the interactions is that of the forward marketing linkages of the products made by the SHGs. Also sustainability of the SHG enterprises need to be given equal importance in the process.

During course of the group visit bankers also wanted to know from SHGs why the members take loans from MFI-AMPL instead of the banks. On replying to the question from bankers that why they are taking the service of AMPL with higher interest rate instead of a bank which charges less than half the interest rate (as compared to AMPL), the members confidently replied that non-accessibility of bank branches, cumbersome documentation process of the banks, non-availability of loan on time, flexible repayment schedules etc are the foremost reasons that they refrain from approaching a bank. The products made by those visited SHGs include: Candle and incense stick making, coir works, weaving of sarees etc.



SHG Member showing candles making business & another member busy in weaving of sarees

7. Interactive Session at Hotel Trident & Bankers' Feedback:

The post-lunch session was held at Hotel Trident. Although originally planned to have some more departmental presentations from AMPL but in the interest of time, it was agreed to have an interactive deliberation among the bankers and AMPL staff along with soliciting feedback from the Delegates on the visit. With Smt. Puspamitra Sahu, DGM, RBI joining the team, the interactive dialogue became more purposeful one.



Feedback Session: Bankers-MFI interactions in the presence of RBI- DGM at Hotel Trident

There were positive feedback and appreciation for the efforts put in forth by AMPL at the grass-root level. Everybody knows about the current penetration of bank branch network across the state. So understanding this fact, it's inevitable on the part of other forms of financial services delivery

organisations like AMPL to tap this opportunity through institutionalising the women groups and making it sure the demands for credit from these WSHGs are met in time. The bankers were quite happy after visiting the branch and groups and finding their tremendous potential and passion about doing something worthwhile to support the poor families.

Some of the important points/feedbacks from the bankers shared during the meeting include:

- Piloting of the tablet based application for smoother data transfer is incredible.
- Great to found out the controlled NPAs of AMPL
- It was interesting to observe that despite the higher interest rate than the banks, SHGs do prefer to take loans from AMPL, mainly because of timely availability of loans at door steps
- The tenure of repayment especially for bigger loans, however, can be increased further to help women become sustainable in managing the business that they undertake.
- Marketing linkages of the products made by SHGs can be given more importance
- Sustainability of the SHGs and enterprises need to be analyzed and improved further
- So also MFI should ensure to have robust systems & procedures including on risk management, should have appropriate MIS and disclosure system, should be rated by reputed & credible rating agencies and must have strong internal and statutory audit procedures to better convince banks for lending. Of course AMPL fulfils most of these to a great extent.
- The Delegates also bring to the notice of RBI the interest rate charged by AMPL (24%). Terming it on the higher side they requested the apex level regulatory body to lower that for the benefits of poor women.
- Having listened patiently to the feedback from bankers, the DGM-RBI explained how the apex bank undertook a series of measures to regulate and monitor the sector and MFIs registered as NBFCs with RBI. RBI has issued specific guidelines and made that mandatory for NBFC-MFI to adopt the Fair Practices Codes for them along with setting up the maximum cap on interest rate. RBI also advised all stakeholders including MFIs to ensure greater accountability, integrity, transparency, client protection, risk management etc while delivering the services. Appreciating the efforts of the bankers and others for their kind participation in the exposure programme, she assured the Delegates to take-up some of the issues shared by the bankers at appropriate forums.

Responding to the queries raised by the bankers, AMPL appreciated the feedback and agreed to work on that to improve further. Referring to the query on the interest rate, AMPL explained that banks' share of the total portfolio is only 20% in comparison to the rest 80% high cost funds they raise from different other sources. Certainly if the share of bank lending increases to that of the other private lenders, the MFI can reduce the interest rate which will directly benefit the poor women as a whole. Infact, AMPL has reduced the interest rate from 26% to 24% this year. It would be able to reduce that further, if bank lending with relatively low cost of funds are available adequately. As far as marketing linkages are concerned they are trying to create a cluster of certain producer groups so that there will be a fair chance of bargaining and selling of the indigenous products made by the WSHGs.

The exposure programme finally got concluded at about 5.00pm with a vote of thanks given by AMPL. It ended with a positive note as 2-3 banks advised AMPL to prepare loan proposals and submit that to them. ACCESS-ASSIST will follow-up with each of these bankers to facilitate increased bank lending to MFIs in Odisha.

ANNEXURE

1. Summary: Pre/Post Exposure Visit Feedback

Pre-Visit	Post-Visit
<u>Key Expectations</u> <ul style="list-style-type: none"> MIS, lending methodology of the MFI Interaction with branch & SHGs 	<u>Overall Feedback</u> <ul style="list-style-type: none"> Almost all of them mentioned the visit for them was an eye-opener and the experience was excellent.
<u>On Hindrances of Bank lending to MFIs</u> <ul style="list-style-type: none"> Lack of clear policy on lending to MFIs and appraisal mechanism at bank level are two of the most forbearing reasons. Also Banker's concern on margin and loan utilisation also came out another cause. 	<ul style="list-style-type: none"> Fairly satisfied the way operations being handled by AMPL and some of them were even asked for proposals from the MFI.
<u>Banker's Overall Suggestion</u> <ul style="list-style-type: none"> AMPL should go in for Consortium financing involving many bankers so that many banks could get opportunity to contribute to the share of their funding. Similar thing could be thought of other MFIs in Orissa. Further AMPL and other stakeholders could play a major role in supporting the MFIs in the area of forward marketing linkages of SHG products. 	

2. Participating Banks

Sl. No	Name of the Participants-Bankers	Representing Bank
1	Ms. Puspamitra Sahu, DGM	Reserve Bank of India
2	Mr. Sanjeev Srivastava, AGM	Oriental Bank of Commerce
3	Mr. Harish Ch. Pradhan, AGM	Syndicate Bank
4	Mr. D. P. Swain, AGM	Central Bank of India
5	Mr. Ashok Pattnaik, AGM	Union Bank of India
6	Mr. R. N. Prasad, AGM	Indian Bank
7	Mr. S. P. Singh, AGM	Dena Bank
8	Mr. Deepak Kumar Pati, AGM	IDBI Bank
9	Mr. Balaji Singh Samant, Chief Manager	State Bank of India
10	Mr. M. P. Panda, Sr. Manager	Canara Bank
11	Mr. D. Pradhan	Canara Bank
12	Mr. S. Mishra, Manager	Dena Bank
13	Mr. U. C. Patra, Sr. Manager	Indian Bank
14	Mr. Manas Ranjan Prusty, Sr. Manager	Bank of India
15	Ms. Monalisa Mohanty, Manager	Union Bank of India