

2nd Bankers – MFI Exposure Visit Report in Odisha

MFI – Mahashakti Foundation Under **Poorest States Inclusive Growth (PSIG) Programme**



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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 mentioned low-income states, by providing financial access to 12 million poor through capacity building of MFIs, implementing 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:

Lack of adequate funding for micro finance sector has been considered as one of the key constraints in expanding financial inclusion for the poor. Operating primarily in the rural areas, most of the smaller microfinance institutions (MFIs) find it difficult to expand their outreach due to the resource crunch. Although the sector has recovered to a great extent after the crisis in 2010, flow of funding for the smaller MFIs has not yet fully stabilized. Limited or no bank lending adversely affect their programme as well portfolio growth. Mainly because of their bad experience with a few MFIs in the pre- crisis period, banks too feel reluctant to on-lend to these institutions. In order to meet the credit demand of their clients they start borrowing from Private Investors with a higher cost. As it always involves a great amount of overhead costs to serve the remote clients, the MFIs usually adjust the interest rate, well within the RBI approved level, to cover the expenses. Consequently the higher cost of funds as well as operational expenses incurred by MFIs to deliver the services at their door step make clients to pay relatively higher service charges. Of course, the feedback from clients confirms the fact that many of them do not mind to pay slightly a higher interest rate for the timely and hassle free services rendered at their door step. However, this can be dealt with the combined efforts of Banks and MFIs-bank lending to MFIs at lower cost of funds and MFIs channelizing that to clients. It is understood that increase in the share of lending from Public Sector banks to MFIs positively lowers overall cost of lending. This implies there are more chances of MFIs reducing the interest rate to the clients or SHGs. Also as the NPA in MFI lending to SHGs is way below than the SHG portfolio NPA of banks; it'll be a win-win situation for banks as well as MFIs.

To cover and sensitize bankers on this particular aspect, PSIG-SIDBI in association with ACCESS-ASSIST organised the 1st Bankers-MFI Exposure programme on 23rd August 2014 to Annapurna Microfinance Pvt Ltd (AMPL) in Bhubaneswar. The event was quite successful and as many as 15 senior bankers participated from several Public Sector Banks. In the process bankers could see the effort put in forth by MFI in reaching out to the poor clients including women and helping them in addressing their household livelihood needs. After that successful visit the state PSIG & ASSIST teams organised the 2nd exposure visit for bankers to Mahashakti Foundation, currently operating in the western Odisha region with its HO at Bolangir. The exposure programme was conducted with the following objectives;

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
- Encourage bankers on lending the potential MFI(s)

4. Methodology Adopted:

Using the experience from the 1st exposure visit of senior bankers to AMPL, the 2nd visit was planned in consultation with the PSIG-SIDBI team, Banks and the host NGO-MFI Mahashakti Foundation. As the office/branch of Mahashakti Foundation is located in Balangir, so it was strategically planned to invite the bankers from either their regional office in Sambalpur/Rourkela or request their regional office in Bhubaneswar to depute senior officials from that area. Separate invites were created and sent to the designated officials. The team undertook back-to-back visits to Sambalpur and Balangir so as to ensure maximum participation from the banks.

5. Participants in the Bankers-MFI Exposure Programme

All the bankers were very much appreciative of the efforts put in forth by PSIG and positively responded to the invitation. As many as 15 bankers from 11 banks participated in the event. The participated banks include Bank of India, Union Bank, State Bank of India, United Bank, IDBI, Corporation Bank, UCO Bank, Allahabad Bank, UGB, Andhra Bank, Oriental Bank etc. The visit for the participated bankers not only created a platform to understand the MFI lending methodology but also helped in exchange of ideas/experiences among the bankers, who themselves interacted frequently on the pros & cons of bank lending to an MFI.

6. Proceedings of the Visit

6.1. Sharing of an Overview of Mahashakti:

Welcoming the bankers Mr. Rajesh Kumar, AGM-SIDBI-PSIG explained about the PSIG program and its underlying objectives. Mr. Narendra Nayak, Associate Director, ACCESS-ASSIST thanked the bankers for their kind participation and explained the purpose of the exposure visits. Having provided their self introductions, the bankers also shared their expectations from the exposure visit. While from Mahashakti Foundation, Mr. Jugal Kishore Pattnaik, CEO welcomed the bankers, Mr. Mohan Baliarsingh, Advisor to Mahashakti presented the profile and also programmes undertaken by the Foundation for mostly the poor people in western Odisha region. In his presentation, Mr. Jugal Pattnaik explained about the important contribution made by Mahashakti through financial assistance for micro-enterprise development of poor women in their operational areas.



Mr. Jugal Pattnaik, CEO-Mahashakti Foundation presenting about the organisation at the Hotel Bhammar

From the presentation it was understood that Mahashakti with a total 130 staffs, is now working in 7 districts of Odisha with coverage of 25000 households (10000 households under micro-credit & the rest covered under various developmental projects). It has about 9,680 no. of active borrowers with total outstanding of Rs. 13.17 Crores as on September 2014. Bereft of its size and outreach, Mahashakti has

been continuously working on to improve its governance, systems & procedures, responsible finance measures, , product designing and HR development etc through technological up gradation as well as implementing other technical know-hows. The soft copy of the PPTs, annual reports, rating reports, audited statements and other relevant documents were put in the CD and shared with each banker.

6.2. Branch Visit-Tushra & Balangir:

Soon after the presentation at the Hotel, the bankers were all divided in two groups taken to the field offices of Mahashakti based out at Balangir and Tushra blocks under Balangir District. At the field offices all the staffs were introduced to the senior bankers with their respective responsibilities.

The bankers were then interacted with the branch staff and asked important questions (shown below) about their selection of borrower, lending methodology, monitoring of the loan etc. Some of the bankers were fascinated to see the MIS of Mahashakti for data reporting. The MIS is called FIMO (Financial Information and Monitoring Organiser) and is a specialised product for MFI data reporting; being designed & developed by the Hyderabad based Jayam Solutions.



Bankers interacting with Branch Manager at the Tushra Branch of Mahashakti

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?
- What's the portfolio size of the branch? How do you disburse the loan?
- 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 annual profit or sustainability rate of the branch?
- What kind of MIS does Mahashakti have at the branch level?
- In which language the loan application format is developed?
- Why don't you open individual member accounts in the bank and then deposit the disbursal amount?
- What are the documentary evidence does Mahashakti maintain in respect to the disbursement and at the time of repayment?

The Branch Manager and staffs responded well to each of the queries from the bankers. The bankers were happy to see the loan repayment rate and were glad to know that Mahashakti also positively advising the SHGs to repay back the bank loan.

6.3. Visit to SHGs & Interactions with the Members:

The bankers were then taken to the SHGs and given the opportunity to interact with the members. The discussion was very purposeful as the members were very much aware about their financial needs. The members from these groups were found to be engaged in individual income generating activities and more importantly were able make it sustainable as well as profitable. The bankers were very appreciative of the efforts of the women members for their commitment and perseverance in dealing with their domestic work and the association with the SHG. The members of the visited SHGs were between 12-18 numbers. Each of them currently associate with economic activities like agriculture, petty business, selling dry fish, rearing vegetables, tailoring, dairy, bakery etc.



Bankers interacting with the SHG members of Bolangir Branch of Mahashakti

On replying to the question from bankers that why they are taking the service of Mahashakti with higher interest rate instead of a bank which charges less than half the interest rate, the members confidently replied that non-accessibility of bank branches, cumbersome documentation process of the banks, have to get rid of their daily wages(income), non-availability of loan on time, repeated visits to the bank branches located at distant places etc are the foremost reasons that they refrain from bank loans and prefer to avail the loans from MFI at their door step on time.

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

The post-lunch session was held at Hotel Bhammar. Although originally planned to have some more departmental presentations from Mahashakti but in the interest of time, it was agreed to have an interactive deliberation among the bankers and Mahashakti staff along with soliciting feedback from the Delegates on the visit.

There were positive feedback and appreciation for the efforts put in forth by Mahashakti 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 Mahashakti 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. They were quite satisfied by observing the excellent repayment from SHGs and also the timely and transparent MFIs maintained by the MFI.

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

- Great to found out the controlled NPAs of Mahashakti
- It was interesting to observe that despite the higher interest rate than the banks, SHGs do prefer to take loans from Mahashakti, 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.
- Sustainability of the SHGs and enterprises need to be analyzed and improved further
- MFIs to ensure greater accountability, integrity, transparency, client protection, risk management etc while delivering the services.
- Mahashakti should enhance its equity base to better attract banks and investors
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Responding to the queries raised by the bankers, Mahashakti appreciated the feedback and agreed to work on that to improve further.

The one-day long exposure-visit programme ended with a vote of thanks from Mahashakti. ACCESS-ASSIST will follow-up with all the participating bankers to facilitate increased bank lending to Mahashakti Foundation and other MFIs in Odisha.

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ANNEXURE

Participating Banks

Sl. No	Name of the Participants-Bankers	Representing Bank
1	Mr. Trilochan Behera, AGM	Bank of India
2	Mr. Shubhrendu Mohanty, RM	State Bank of India
3	Mr. Kishore Ch. Panda, RM	Utkal Gramya Bank
4	Mr. P. K. Mahapatra, Sr. Mgr	UCO Bank
5	Mr. M M Senapati, Sr. Mgr	Allahabad Bank
6	Mr. Jamidar Sahu, BDM	IDBI Bank
7	Mr. P. K. Satapathy, Chief Mgr.	Union Bank of India
8	Mr. B. B. Panda, Chief Mgr.	State Bank of India
9	Mr. Murlidhar Sahu, Sr. Manager	Corporation Bank
10	Mr. Chandra Sekhar Sethi, Sr. Branch Mgr	Union Bank of India
11	Mr. Kartika Oram, Chief Mgr.	United Bank of India
12	Mr. Ashis Kumar Sai, Sr. Manager	Allahabad Bank
13	Mr. Govinda Pathrimali, Sr. Manager	Oriental Bank of Commerce
14	Mr. Yogesh Sahu, Asst. Mgr	Andhra Bank