

March 15 & 16 2011 – New Delhi



The objective of this conference is to re-think the microfinance industry and to debate about micro-finance’s true aims after the Andhra Pradesh crisis in 2010. Through there is a broad-based acknowledgment that Microfinance is essential for Financial Inclusion and to empower economically the poor, this sector has grown rapidly causing some unbalances. Tighter regulation, closer relationship between the lenders and beneficiaries, technologies, product diversifications, codes of ethics, transparency, financial literacy were the main topics debated.

SESSION I – Reassessing Microfinance: Past Achievements & Future Challenges

Mr Sinha is optimist for the Microfinance future but a sustainable regulation has to be implemented. **Mr Subrmanayam** argues that Microfinance Institutions must “re-discover their roots”. According to him, 4 stages have to be followed by the MFI: 1. To give priority to the prosperity of people, 2. To strengthen the community because it is a source of progress, 3. To bring beneficiaries towards Financial Inclusion through an effective credit (basically means, borrowers are able to repay), 4. To establish a transparent relationship between MFI and their clients. He also insisted on the importance of a regulation as a signal for a sustainable growth of the sector. **Ms Das** agrees that Andhra Pradesh crisis was an evidence that Microfinance strayed from its original mission. However, a regulation should not harm the small MFI. **Mr Chen** expresses its regrets that Microfinance industry focuses only on credit to support people. To be close to the community is essential for a meaningful credit. To conclude, **Mr Malhotra** urges the Microfinance Institutions to restore the situation on the ground, to re-ensure a dialogue between each others in a context of distrust. At the same time, he recalls the importance to reinforce politics point of views to solve some of these issues. Civil Society has to play a role especially in financial literacy.

SESSION II – Financing Microfinance: Lowering Barriers to Investment

The Microfinance sector is going through a severe liquidity crunch. New mechanism have to be debated to attract investors. New financial service products, technologies, domestic guarantee funds, “Codes of Conducts” are ones of the solutions promoted by **Mr Maini**. **Mr Sinha** recognizes the necessity of a partnership between banks and MFI as well between Banks and NGOS to develop new products. However, MFI are required to adopt a new Business Model. According to **Mr Weingarten**, investors need to have a clear predictable environment: a clear regulation (State or federal?), a clear management of the “Priority sector lending”, a reasonable interest rate, a sustainable growth are the imperatives to attract investors. **Mr Weingarten** and **Mr Ghosh** are in favor of self-regulation because an inflexible or too restrictive regulation may discourage the investments. “How to survive after Malegam Report?” The lack of domestic capital and transparent information of borrower’s credit history as well a too wide scope of Indian microfinance participants have also been pointed out. More attention has to be done on Social Performance, transparency and credit history.

THE SPEAKERS

SESSION I - Reassessing Microfinance: Past Achievements & Future Challenges

- **Mr. R. Malhotra**, *Economic Advisor to the Finance Minister*
- **Mr. S. Sinha**, *Managing Director, M-Cril*
- **Mr. Subrmanayam**, *Secretary- PR & RD Govt of Andhra Pradesh*
- **Ms. V. Das**, *CEO, Ananya Finance For Inclusive Growth Pvt. LTD*
- **Mr. G. Chen**, *Regional Representative for South Asia, CGAP*

SESSION II – Financing Microfinance: Lowering Barriers to investment

- **Mr. N. K. Maini**, *Deputy Managing Director, SIBDI*
- **Mr A. Gandhi**, *Advisor, Sa-Dhan*
- **Mr J. Sinha**, *CGM, StateBank of India*
- **Mr R. Weingarten**, *Managing Director, Norwegian Microfinance Initiative*
- **Mr. S. Ghosh**, *CEO & MD, Ujjivan Financial Services Pvt. Ltd*

SESSION III – Pricing: Balancing Financial Viability with Social Impact

- **Mr. T.K. Arun**, *Editor-Opinion, The Timesgroup*
- **Mr. M. Khera**, *CEO, FINO*
- **Mr. R. Braganza**, *CEO, Grameen Capital India Ltd*
- **Mr. R. Ramanathan**, *Chairman, Janalakshmi Financial Services*
- **Mr. A. Datta**, *Sr Director & Head-Rural & Development*

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SESSION III – Pricing: Balancing Financial Viability With Social Impact

“Stop to be defensive” claims **Mr Ramanathan**. MFi have a social as well a commercial aspect and the last one remains central in the competition. First, it’s to understand the components of the interest rate and the various costs of the separate components. Secondly, it’s also essential to minimize the greed of Some MFI’s and to moderate equity returns. “The most profitable 10% of MFI’s around the world have a return

on equity of about 34%”. However, the suggestion interest rate cap of 24% is not a good solution, according to **Mr khera** and **Mr Braganza**, “Regulators give only shocks” and a interest rate cap will cause the exclusion of some people because the cost to reach them is to high. **Mr Khera** and **Mr Arun** are promoting technologies, like that, costs will go down in few years with the economies of scale. **Mr Datta** concludes that the main question remain: What is political acceptable as interest rate? And what is practically possible for NBFC as interest rate?

BREAK AWAY SESSION III – Making the Business Correspondent Model Work: Challenges and Opportunities

In 2006, the RBI authorized independent individuals, non-profit societies and trusts to engage in limited bank transactions on behalf of banks with the hope that a decentralized agent model could help bring India’s vast unbanked population into the formal financial sector. However, in 2009, only 26 out of India’s 50 private and commercial banks employed Business Correspondent agents. Why? All the stakeholders agree that banks may not find it profitable to extend services through business correspondent agents because of high costs and inconvenience. Moreover, the lack of financial literacy hampers adoption of the system because clients do not see the value in banking services or products. Several different solutions have been proposed. **Mr Banerjee** suggested relaxing restrictions on who can serve as a BC. **Mr Bhattachayya** believes that allowing NBFC-MFI’s to serve as BCs would help the model achieve financial viability and lead to greater participation from banks. **Mr Mehta** argues that communication technologies may also reduce costs.

SESSION IV – Reinventing the Self Help Group Model

In India, approximately 58 million women are members of Self help Group. SHG’s, initially formed to mobilize savings and make loans to members are also regarded as an instrument for the empowerment of the poor. The SHG Bank Linkage Program is providing collateral security, capacity building, leadership and so on. However, this model is facing to some difficulties as funds misutilisation (49.9% of SHG loans accounted for pure consumption), dependency on formal banks and government, usuriousness within the members (...). **Mr Kumbhare** argues that the quality of SHG’s began to decline after they began facing competition from mainstream Microfinance Institution which led the model to focus on speedy disbursement of credit rather than mobilizing

BREAK AWAY SESSION III – Making the Business Correspondent Model Work: Challenges & Opportunities

- **Mrs. D.P. Joshi**, CGM, RPCD, RBI
 - **Mr. K. Mehta**, COO, SwadhaarFinAccess
 - **Prof. B.B. Bhattachayya**, WeSchool
 - **Mr. G. Banerjee**, General Manager, Punjab
- ### SESSION IV – Reinventing the Self Help Group Model
- **Mr. G. pandey**, Convenor, ShramikBharati
 - **Dr L.H. Manjunath**, Executive Director, SKDRDP
 - **Dr S.L Kumbhare**, Chief General Manager, NABARD
 - **Ms. R. Nilekani**, Chairperson, Arghyam
 - **Mr. J. Gaunt**, Director, GY Associates Ltd

SESSION V – Reforms in Practice: Code of Conducts and Self Regulation

- **Shri P. DasRai**, Hon’ble Member of parliament
- **Mr. R. Prabha**, Specialist, Banking & Microfinance
- **Mr. K. Unnikrishnan**, Dy. Chief executive, IBA
- **Mr. S. Kaushik**, Director, Deptt. Of Economic Affairs, Ministry of Finance
- **Mr. W. Tucker**, Executive Director, seep network
- **Prof. D. Gibbons**, Chairman, CASHPOR Micro Credit

savings. In order to rebuild the SHG model, many strategies have been proposed. The government proposed to set up a “Women’s SHG’s Development Fund” with a corpus of Rs.500 crore. To develop a centralized data center, a UID no (Identity Cards), to promote RRB (Regional Rural banks) as well as to improve public infrastructures have also been solutions suggested.

Mrs Nilekani and **Mr Gaunt** insist on financial literacy and believe in the ability of women: “To encourage the money to move among the group rather than to stay within the group”.

SESSION V - Reforms in Practice: Code of Conducts and Self Regulation

After the Andhra Pradesh crisis, the idea to enforce ethical practices is important in fostering long term relationship between MFI and clients as well investors. Sa-Dhan started working on a “Code of Conduct” (transparency, fair-play, honesty, fair practices) for its members. The self-Regulation seems to be preferred on this matter. **Mr Prabha** proposed a road ahead for MFI’s: Adoption=> internalization=> staff training=> implementation=>feedback=>monitoring.

Mr Tucker gives an example of good practices with “El Banco Del Sol” in Bolivia which led a Smart campaign and maximized information. However, along the discussion, no concrete commitment to implement ethical practices have been made by the different stakeholders.

SESSION VI - Building Financial Infrastructure: How can the State help?

The microfinance industry still faces of challenges especially non-optimal pricing and lack of financial literacy which prevents it from reaching its full potential. **Mr Gangopadhyay** urges the government to stop giving subsidies that distort the market and to develop infrastructures promoting financial literacy. About the Melagam Report, **Mr Raymond, Mr Kulkarni and Mr Titus** disapprove of it. They don’t want any centralized regulations but only guidelines, a broad regulation. “*The Melagam Report is very difficult to comply but it highlights the high skill of level expected by the staff delivering these services*”. Thus, the government should develop skills and knowledges rather than imposed what the MFI’s have to do or not to do.

SESSION VII - Smart regulation: Creating Policies that Work

Following this time of crisis, it’s necessary to develop a strategy and framework for a regulatory structure. The debate is intense between the pro-self-regulation and those in favor of a national regulation. **Mr Umarji** says that laws can be implemented to protect the customer. Actually, no legislation has been provided for protecting customers of banking services. **Mr Thekkekara** recognizes that MFI’s are doing a social service but yet, they need regulations. According to him, self-regulation is possible but the implementation of benchmarks remains non-negotiable. More vindictive, **Mr Allaudin** believes that a regulation at national level is the unique solution. Only, one agency has to be in charge of regulating the microfinance sector. The MFI’s have to stipulate their status, their accounts have to be checked to avoid many troubles. Sa-Dhan has to convince MFI’s for a legal framework. **Mr Mahajan** regrets that policy-makers encourage borrowers to not to repay with populist discourses. They don’t realize what they do and create an unstable situation rather than restore discipline. The debate is far from over; the law is still in process. Proposals and comments are welcomed by the Melagam committee.

SESSION VI – Building Financial Infrastructure: How can the State help?

- **Dr. P. Bakshi**, *Executive Director, NABARD*
- **Mr. S. Gangopadhyay**, *Director, India Development Foundation*
- **Mr. V. Kulkarni**, *Managing Director, Brickwork Ratings*
- **Mr. M. Titus**, *Executive Director, Sa-Dhan*
- **Mr. C. Raymond**, *Principal Operations Officer, Global Financial Markets Department, IFC*

SESSION VII – Smart regulation: Creating Policies that Work

- **Shri B. Panda**, *Hon’ble Member of Parliament*
- **Mr. M.R Umarji**, *Chief legal Advisor, Indian Banks Association*
- **Ms. T.F. Thekkekara**, *Additional Chief Secretary, deptt. Of Minorities affair, Govt of Maharashtra*
- **Shri T. K. Allaudin**, *Principal Secretary- PR & RD, Govt of Tamil Nadu*
- **Mr. V. Mahajan**, *Founder & Chairman, Basix Group*

SESSION VIII: What Should Microfinance Do Next?

- **Dr. N. Jadhav**, *Member, Planning Commission*
- **Shri P. Chandra Ghadai**, *Hon’ble Minister For Finance & excise, Govt of Odisha*
- **Dr. A. Mitra**, *Secretary General, FICCI*
- **Ms. J. Vyas**, *honorary executive Director, ISMW & Chair, Sa-Dhan*



SESSION VIII: What Should Microfinance Do Next?

What expectations for the future?

- Financial literacy for the empowerment. **Ms. Vyas** announced the Financial Literacy year.
- Trust restoration and closer relationship between MFI and beneficiaries.
- Enforcement of “Code of Conducts”.
- More regulations and transparency.
- Product diversifications and product differentiations to promote empowerment.

GLOSSARY

RBI/RRB: Reserve Bank of India/Regional Rural Bank

Sa-Dhan: The association of Community Development Finance Institutions

Melagam Report: www.sebi.gov.in/commreport/melagamreport.pdf

SHG: Self Help Group (15-20 women)

BC: Business Correspondent

MFI: Microfinance Institutions

NBFC: Non-Banking Financial Company

Creore: A unit in the Indian numbering system equal to ten million