



# MICRO MATTERS: MACRO VIEW

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**India Microfinance Review  
FY 2021-22**

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# **India Microfinance Review FY 2021-22**



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## Abbreviations

ADSCR	Annual Debt Service Cover Ratio
AE	Advance Estimate
AePS	Aadhaar Enabled Payment System
AI	Artificial Intelligence
AIFI	All India Financial Institutions
AMFIRS	Assam Micro Finance Incentive & Relief Scheme
API	Application Programming Interface
APR	Annual Percentage Rate
BC	Business Correspondents
BL	Base Layer
BoP	Bottom of Pyramid
CAGR	Compound Annual Growth Rate
CB	Credit Bureau
CCIR	Company Credit Information Report
CD	Consultative Document
CFSS	Core Financial Service System
CGRM	Customer Grievance Redressal Mechanism
CGSSD	Credit Guarantee Scheme for Subordinate Debt
CGSMFI	Credit Guarantee Scheme for Micro Finance Institutions
CGTMSE	Credit Guarantee Trust for Micro and Small Enterprises
CIC	Credit Information Company
CIR	Credit Information Report
COC	Code of Conduct
CPP	Client Protection Principles
DA	Direct Assignment
DFS	Department of Financial Services
DLA	Digital Lending App
DPD	Days Past Due
DRI	District Risk Index
DSCR	Debt-Service Coverage Ratio
EBIDTA	Earnings Before Interest, Taxes, Depreciation, and Amortization
ECB	External Commercial Borrowing
ECLGS	Emergency Credit Line Guarantee Scheme
EIR	Effective Interest Rate
EMDE	Emerging Market and Developing Economies
EOI	Expression of Interest
EWS	Early Warning system
FCR	Financial Cost Ratio
FI	Financial Institution
FOIR	Fixed Obligation to Income Ratio
FPC	Fair Practice Code

## Abbreviations

FY	Financial Year
GDP	Gross Domestic Product
GLP	Gross Loan Portfolio
GOI	Government of India
GVA	Gross Value Added
HFC	Housing Finance Companies
HH	Household
HNI	High Net-worth Individual
HQLA	High-Quality Liquid Assets
HR	Human Resource
IGA	Income Generation Activities
I-O	Input-Output
IPO	Initial Public Offering
IRACP	Income Recognition, Asset Classification and Provisioning
IRDAI	Insurance Regulatory and Development Authority of India
IRR	Internal Rate of Return
IVR	Interactive Voice Response
JLG	Joint Liability Group
KYC	Know Your Customer
LCR	Liquidity Coverage Ratio
LIC	Low-Income Country
LIH	Low-Income Household
LLP	Limited Liability Partnership
LMS	Learning Management Systems
LO	Loan Officer
LOS	Loan Origination System
LSP	Lending Service Provider
MF	Micro Finance
MFIN	Microfinance Institution Network
ML	Middle Layer
MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MOU	Memorandum of Understanding
NABARD	National Bank for Agriculture and Rural Development
NatCat	Natural Catastrophe
NBFC	Non-Banking Financial Company
NBFC-MFI	Non-Banking Financial Company - Micro Finance Institution
NCAER	National Council of Applied Economic Research
NHB	National Housing Bank
NPA	Non-Performing Asset
OER	Operating Expense Ratio

## Abbreviations

OSS	Operational Self-Sustainability
PAR	Portfolio at Risk
PCA	Prompt Corrective Action
PER	Personnel Expense Ratio
PF	Processing Fee
PLI	Production Linked Incentive
PSL	Priority Sector Lending
QA	Qualifying Assets
QoQ	Quarter on Quarter
RBI	Reserve Bank of India
RE	Regulated Entity
ROA	Return on Assets
ROE	Return on Equity
SA	Statutory Auditor
SBR	Scale Based Regulation
SCA	Statutory Central Auditor
SCB	Scheduled Commercial Bank
SFB	Small Finance Bank
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SIT	State Initiative Team
SME	Small Medium Enterprises
SRO	Self-Regulatory Organisation
USSPM	Universal Standards of Social Performance Management
TAT	Turn Around Time
TLTRO	Targeted Long-Term Repo Operations
TWG	Technical Working Group
UB	Unique Borrower
UCRF	Uniform Customer Reporting Format
UL	Upper Layer
UT	Union Territory
WRMS	Weather Risk Management Services
YoY	Year on Year



## Message from the Chairperson

In 2019, Prime Minister Narendra Modi envisioned an aspirational India with a \$5 trillion economy and a global powerhouse. While higher growth is a key imperative, it is vital that the growth is broad-based and inclusive.

The Organisation for Economic Co-operation and Development (OECD) defines inclusive growth as economic growth that is distributed across society in a fair manner and creates opportunities for all. Financial inclusion or Access to Finance is an important pathway to create opportunities thus allowing low-income households to take part in these growth processes. Global development literature amply points to the link between A2F and inclusive growth as financial access allows individuals at the bottom of society to realise their potential and lead to development as defined by the Nobel Laureate prof. Amartya Sen [Development as Freedom]. As such, for India and Bharat to pull together, Financial Inclusion or empowerment of every Indian with access to formal financial services is very critical.

This is where Microfinance is playing a very important role in meeting the needs of the low-income aspirational households by providing doorstep financial services like credit, insurance along with imparting financial literacy. As on 30th June, 2022, there are close to 6 Cr unique microfinance clients being served by a range of regulated entities including NBFC-MFIs, Small

Finance Banks, Banks and NBFCs. During the Covid crisis of last two years, when policy makers were focused on ensuring that liquidity through debt flows to the lowest rung of the population, microfinance sector disbursed more than INR 4 lac Cr in spite of repayment issues on existing loans and playing an important role in supporting the efforts of the Government in reducing the hardships caused by the pandemic.

The 'inherent' need for such a model in aspirational India where a large unserved / underserved population still needs to be brought onto the financial bandwagon, is underpinned by the fact that Microfinance remains a 'preferred' policy vehicle for both the policy planners and the practitioners across the years.

The phenomenal support and conducive policy framework provided by the RBI has been a catalyst in furthering Microfinance's mission of financial inclusion. The sector has been accorded a special category under the larger NBFC category of RBI – lending it a distinct identity and strong credibility by having country's first RBI recognized Self-Regulatory Organization (SRO). The recent harmonized regulations issued in March, 2022 has created a level playing field, addressing issues of over indebtedness and multiple lending and will go a long way in fostering long term sustainability of the Sector and clients.

The functioning of MFIN (the sector association) as an SRO since 2010 has enabled the sector to build its growth on strong pillars. Key pillars of MFIN's work have been customer protection, industry code of conduct and policy advocacy, all of which contribute towards building of a Responsible Finance ecosystem. In a liberalized regulatory environment based on overarching principles, the role of MFIN as an SRO becomes more critical in ensuring responsible practices by all players.

Various studies show that there is an interdependence between development of microfinance and overall inclusive economic growth. Being the 2nd largest asset class after mortgages, the sector has a vital role to play in making sure that both India and Bharat progress together towards becoming a Global Powerhouse.

**Devesh Sachdev**  
Chairperson - MFIN



## Prologue

This is the second year of MFIN's annual review of Microfinance. It has been initiated with a view to provide data based insights enriched with our experience as an Industry association and Self Regulatory Organisation (SRO). The year 2021-22 was another year spotted with second wave of COVID pandemic and associated disruptions in field activity but the year ended with the sector bouncing back strongly. This bounce back would not have been possible without the policy support received by the sector as well as the resilience of our customers.

Despite the tribulations of the year as well as the year before, 21-22 ended on a very optimistic note – collection efficiency reaching normalcy, COVID threat fading to a large extent and the onset of a sound regulatory framework. The seeds of optimism sown in the last month of the year in the form of harmonized regulations, have laid the foundations of a growing microfinance industry.

I have always believed that the journey is as important, if not more, than the destination. And this takes me to give a brief snapshot of what all the sector went through as well as the pivotal role played by MFIN. The year started with COVID situation getting normal, but nobody had imagined that the first quarter will see another wave – much intense than the previous. The experience of previous year enabled both policy and institutions to respond based on protocols developed and importantly the country did not go through a blanket lockdown. Disruption

of economic activities did hurt the clients and PAR>60 for the industry shot up to 15.46% as on 30 June 2021. The pandemic induced stress has been global, with global growth slumping to 2.9%. Similar has been the impact on poverty, World Bank President in his foreword in “Global Economic Outlook”, observes “Because of the adverse shocks of the past two years, real income per capita in 2023 will remain below pre-COVID-19 levels in about 40 percent of developing economies”. Access to Finance being the key determinant of inclusive growth, the task for the industry has only got expanded.

Previous year, both the RBI and the Government of India stepped in with liquidity measures and this year was no exception. RBI came up with Rs 25,000 crore and Rs 16,000 crore funding facilities with NABARD and SIDBI respectively to ease out the liquidity stress. As despite these measures, smaller MFIs remained starved of funds, MFIN actively took up the idea of providing guarantee for banks' wholesale lending to MFIs with the Department of Financial Services; idea being guarantee cover will reduce the risk perception of lenders. I report with great satisfaction that the suggestion was agreed to and the guarantee scheme was launched in July 2021 (75% of term loans given by SCBs to MFIs covered by guarantee). 38 of our member NBFC-MFIs received funding under the scheme to the tune of Rs 7,200 crore. It provided much needed relief and ensured that the credit flow to clients did not stop.

While liquidity was being addressed, the first six months of the year saw MFIN battle another challenge in Assam. While the issue started in 2019, it peaked before assembly elections in March 2021 and the passage of a bill which sought to bring state regulation over microfinance. The news of a possible loan waiver came as the last straw. Between April to August, MFIN on behalf of all lenders operating in Assam (members as well as non-members) held intense, multi-round discussions with the Government of Assam to arrive at a solution which balanced the interests of lenders as well as the Government. Finally, a MoU was signed between 39 lenders and the Government on 24th August and the Assam Microfinance Incentive and Relief Scheme (AMFIRS) came into play. It is a landmark in microfinance history for two reasons. First, MFIN playing a sectoral role could bring all lenders together and secondly, the Government avoided loan waiver and sagaciously made it to relief for overdue clients and incentive to regular clients to avoid moral hazard. Hon'ble CM while announcing the scheme emphasised the need to borrow responsibly and maintain good credit record.

MFIN and the sector despite such challenges also kept on innovating and seeding new ideas. For some time now, we have been talking of Natural Catastrophe Insurance (NatCat). The year saw the concept being cleared by IRDAI under regulatory sandbox and the pilot being done in Odisha. Going forward, the product will be scaled up and act as risk mitigant in times of natural disasters.

By March 2022 as the year ended, the microfinance industry continued to serve 5.8 crore low-income clients with a GLP of Rs. 2,85,441 crores recording 10% YoY growth. PAR 30 for the sector after reaching a high of 22.4% in June 2021 has also come down to 13.1% by March 2022. More encouraging is the client activation; which is reaching pre COVID levels and that inspires confidence. The future is bright with field operations almost normal, harmonized regulations ensuring a level

playing field and the vast unserved market – as per our estimates the sector has only reached one-third of the market.

The future growth of the sector is an imperative for inclusive growth of India and our pursuit of \$5 trillion economy. The significance of microfinance was amply brought out in an MFIN commissioned study report “Present and Potential contribution of Microfinance to India’s economy”. The report done by NCAER found out that microfinance sector contributes 2.03% to India’s GVA.

While the future looks bright, the sector also needs to be cognisant of few things. The fact that microfinance is a triple bottom line industry dealing with BOP segment, casts special responsibility on us. Regulation has moved the regulatory oversight to broader principles over micro business rules. It is vital that the sector accords seriousness in implementing cardinal principles like assessment of household income, FOIR to check indebtedness and having a risk based pricing. Two other things are significant and should underpin future growth. First, strengthening of joint liability and group cohesion. These are the bedrock of microfinance and all efforts need to be taken to strengthen the building blocks. Secondly, now that flexibility has been provided by the regulator, there needs to be a concerted effort to step up operations in bottom 300 districts. Today, microfinance operations cover 633 districts, out of which 88% is concentrated in top 300 districts.

I present the report for your reading and end with an assurance that our commitment for building an “Inclusive India” is strong and the future will bear testimony to it. Abraham Lincoln said, “The best way to predict your future is to create it” and for the industry there is no better time than now.

**Dr Alok Misra**  
CEO & Director

## Chapter-1

# Microfinance in India – Its contribution and potential

Ever since the AP crisis in 2010 and the creation of a new category of NBFC-MFIs in December 2011 on the basis of Malegam Committee recommendations, the regulations have carefully nurtured the growth of microfinance in India. The next impetus to the microfinance sector came in 2015 and 2017 with the transformation of NBFC-MFIs to Banks and Small Finance Banks (SFBs). While this move triggered further growth of the sector, it also led to various issues due to multiplicity of entities in microfinance space and with just one of them regulated for the microfinance asset class.

The new harmonized regulations announced in March 2022 have come at a very opportune time when the sector is coming out of the Covid-shock and is expected to herald a new era of responsible and inclusive growth. This chapter looks back on how microfinance has progressed in the last decade, the contribution it has made to the country's economy and its potential in furthering the agenda of financial inclusion.

### 1.1 The evolution of microfinance over the last ten years

In 2012, just after the AP crisis, NBFC-MFIs were the only regulated entity offering microfinance to their clients/borrowers. At that time the portfolio of the sector was Rs 17,264 Cr as on March 31,

2012. In the next ten years, the size of the sector has grown 16.5 times to Rs 2,85,441 Cr as on March 31, 2022, as depicted in **Figure 1.1**. Till Mar'15 NBFC-MFIs were the only entities providing microfinance to the borrowers. In 2016, Banks and NBFCs also started providing microfinance and SFBs got added in 2017.

As of March 2022, about 202 different entities were active in the microfinance space. Banks (12) hold the largest share of portfolio with total loan outstanding of Rs 1,14,051 Cr, which is 40.0% of total micro-credit universe. NBFC-MFIs (84) are second largest provider of micro-credit with a loan amount outstanding of Rs 1,00,407 Cr, accounting for 35.2% to total industry portfolio. SFBs (9) have a total loan amount outstanding of Rs 48,314 Cr with total share of 16.9%. NBFCs (58) account for another 6.9% and Other MFIs (39) account for 1.0% of the universe.

In terms of microfinance model, the two dominant models are the Joint Liability Groups (JLG) and Self Help Groups (SHGs). The universe shown in the figure below pertains to the JLG model and with slight variation in products in terms of loan size, tenure and repayment frequency, this model is used by all Regulated Entities (REs) for mobilizing women borrowers in groups for lending to them. The SHG model is not covered in this report.

**Figure 1.1: Microcredit portfolio (Rs Cr)**

Source: Equifax, data from Mar-19 onwards based on portfolio originated after Feb-17

Further, the data shows that the larger sized REs (GLP >Rs 500 Cr) which are 25% in terms of numbers, contribute to around 97% of the microcredit business, as shown in the **Table 1.1**.

These numbers are almost the same as previous year, just that proportion of small players have increased slightly from 60% to 63%.

**Table 1.1: Contribution to microcredit market by entities of different sizes (As on March 31, 2022)**

GLP (Rs Cr)	No. of entities	Market size	
		(% of entities)	(% of total GLP)
Very Large: >Rs 5,000 Cr	19	9%	76%
Large: >Rs 500 Cr to Rs 5,000 Cr	34	16%	21%
Medium: >Rs 100 Cr to Rs 500 Cr	25	12%	2%
Small: Up to Rs 100 Cr	133	63%	1%

Source: Equifax

## 1.2 Contribution of microfinance to national economy

Over the last two decades, India has been on a steady path of growth with the Gross Domestic Product (GDP) growing by more than 5 times and the per capita income doubling. But the challenge of reducing the uneven distribution of income

has been a constant for the policymakers. The trickle-down of the benefits of economic growth to the strata at the bottom of the economic ladder has been less than satisfactory. Direct transfer of benefits as a method of redistribution of economic gains faces resource constraints in a developing economy like India. In this scenario, microfinance has been offered as an important

mechanism of 'direct intervention' to help the poor improve their economic condition. In the face of competing priorities in front of the policy makers and to ensure that microfinance can demand its due share of attention, it is important to evaluate microfinance in terms of its contribution to the two main policy goals: increasing GDP and generating employment opportunities.

Several microeconomic studies have investigated the positive impact of microfinance on the borrowing household's health, education, income generation and consumption, on women's empowerment, and other non-economic benefits, namely, conflict resolution and social and political reconciliation. However, there is an absence of any macroeconomic study quantifying the contribution of microfinance to the Indian economy. To address this vital gap, MFIN commissioned a research project by National Council of Applied Economic Research (NCAER). The study was a pioneering attempt to estimate the contribution of microfinance to the GDP and employment in India.

The study titled 'Present and Potential Contribution of Microfinance to India's Economy'\* had two main objectives:

**AS PER NCAER STUDY COMMISSIONED BY MFIN, MICROFINANCE IN INDIA CONTRIBUTES 2.03% TO THE GROSS VALUE ADDED AND CREATES/ SUSTAINS 1.3 CRORE JOBS PER YEAR. THIS IS A HUMONGOUS CONTRIBUTION IN LOCAL LEVEL JOB CREATION, ECONOMIC GROWTH AND ASSOCIATED BENEFITS LIKE SOCIAL MOBILITY AND CHECKING URBAN MIGRATION.**

- Measure the contribution of the microfinance sector to the overall economy in terms of income or 'Gross Value Added' (GVA), and
- Assess the impact of microfinance on employment generation

The study estimated contributions of the microfinance sector to the macroeconomy in 2018-19 to be 2.03% of the GVA while generating nearly 1.3 Cr jobs, as shown in **Table 1.2 and 1.3.**

**Table 1.2: Contribution to (GVA), 2018-19**

Contribution of the direct and indirect backward linkage of the NBFC-MFI sector	0.08%
The impact due to the 'forward linkages'	0.53%
Total direct, indirect backward and forward linkages	0.61%
The contribution of microfinance sector as a whole, including all MFIs and SHGs	2.03%

**Table 1.3: Contribution to Employment (Lakh jobs, 2018-19)**

Impact through the direct and indirect backward linkage of the NBFC-MFI sector on employment	1.20
The impact due to the 'forward linkages'	37.34
Total direct, indirect backward and forward linkages	38.54
The contribution of microfinance sector as a whole, inclusive of direct, indirect backward and forward linkages and including all MFIs and SHGs	128.46

\*[https://www.ncaer.org/publication\\_details.php?PID=402](https://www.ncaer.org/publication_details.php?PID=402)

These numbers are significant. The financial sector as a whole, including insurance, of which microfinance is a part, accounted for 5.5 per cent of GVA in 2018-19. While the microfinance delivery system is relatively small even within the formal financial sector of the economy, the important effects of microfinance include its forward linkages: the households and enterprises that use credit to add value through their own production processes. When we consider the 'forward linkages' of the sector, which in turn, generate value addition and jobs, the significance of the microfinance sector in the economy is more appropriately captured.

### 1.2.1 Study methodology

At this point, a brief discussion on the difference between GDP and GVA would be useful to appreciate the methodology used in the study.

GDP denotes the value of goods and services produced in a country during a certain time-period. GVA is a related concept. It is defined as the value of output minus the value of intermediate consumption. Put simply, it is the rupee value of goods and services produced in the sector after deducting the cost of inputs and raw materials used.

While GDP is typically used for the economy as a whole, GVA is useful to analyse a specific sector. GDP can be measured from the demand side or the supply side. For a closed economy, the demand side calculation of GDP is a summation of all the expenditure in the economy including private consumption spending, Government consumption spending and gross capital formation or investment spending. GDP calculation from the supply side is similar to GVA and is the sum total of the value of goods and services produced.

Why use two similar measures? The use of taxes and subsidies makes this imperative. Let us say, in a sector, a tax is applicable on the output and a subsidy is given on the input. This will artificially

increase the price of output and reduce the price of input. But a change in tax or subsidy does not change the 'value added' by the sector. Thus, to measure the value added correctly we must remove the effects of taxes and add back the effect of subsidies. So, we have  $GVA = (GDP + \text{subsidies} - \text{taxes})$ .

The study adopted the framework of an Input-Output (I-O) model to assess the direct and indirect effects of microfinance operations on the GDP and employment.

The I-O model starts with creating an Input-output matrix which is a representation of national or regional economic accounting. The I-O matrix captures the flow of products and services between the different sectors which comprise the economy. The value of these flows is recorded by origin and by destination. This helps us understand the relationships and interdependencies between the different sectors. An example of a domestic I-O matrix is shown in **Table 1.4**.

The I-O matrix is used to calculate different types of multipliers viz. output multiplier and the employment multiplier. The multipliers are used to estimate the effect of changes which occur in the economy. An increase in final demand of a product will evince a response from the producers and they will increase the output – this is the direct impact. As the output of the product increases, there would be an increase in the demand of the material required from their supply chain – this is the indirect impact. Multipliers calculated using I-O matrix are able to capture these direct and indirect effects.

### 1.2.2 Application of I-O model to microfinance

There are two key participants in a major segment of the microfinance credit operation – NBFC-MFIs and borrowers. As illustrated in **Figure 1.2**, the NBFC-MFIs supply loans, derive income from loans to pay for wages & salaries of

employees (1.1), profits to owners (1.2) and other expenses (1.3). The items (1.1) and (1.2) account for value added by the NBFCs directly. The intermediate consumption, such as offices, ICT

services (1.3), leads to multiplier effects estimated through input-output system. The multipliers are estimated first for value of output and then for value added and employment.

**Table 1.4: An illustration of domestic transactions input-output table (in Rs Cr)**

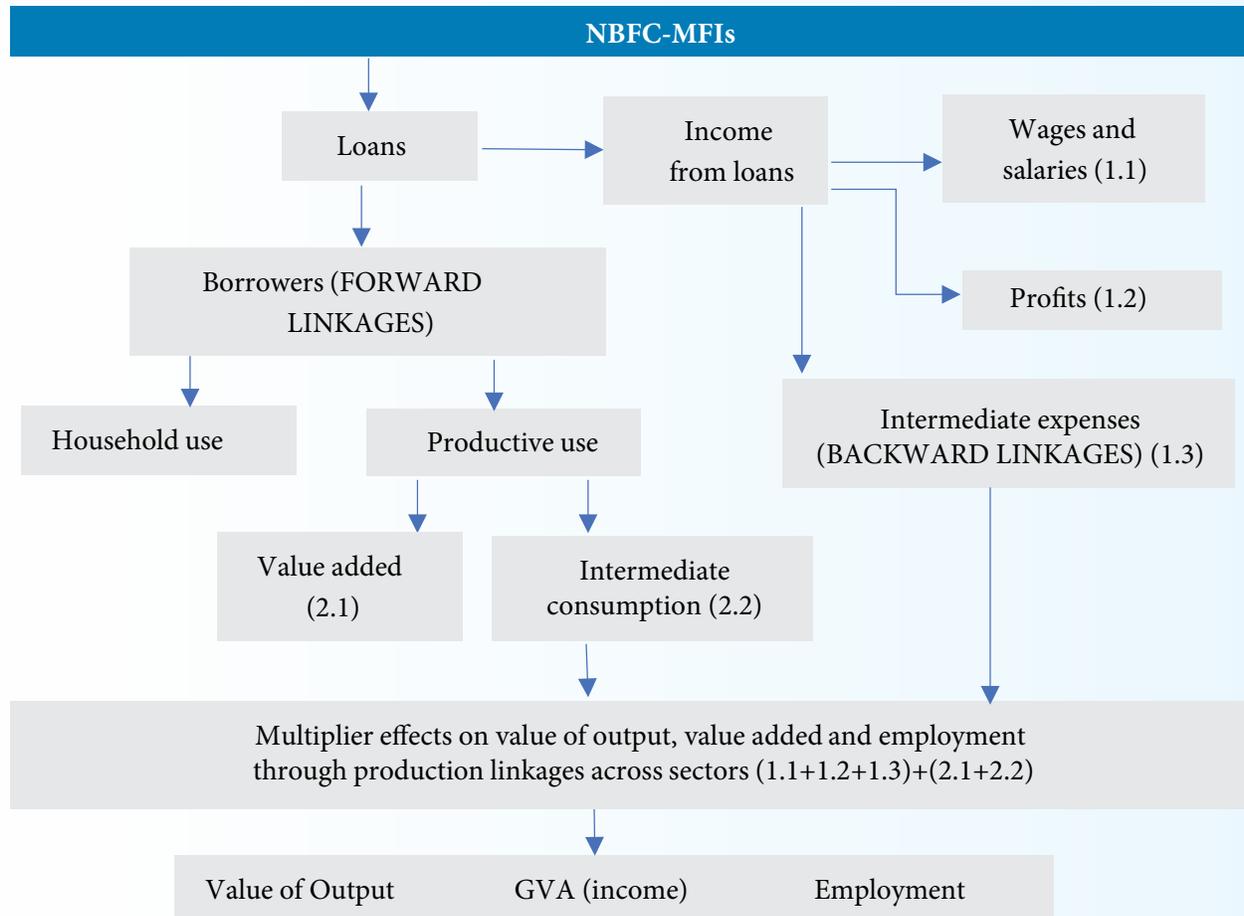
	Sector 1	Sector 2	Sector 3	Sector 4	Sector 5	Sector 6	Private and final consumption	of which, final consumption exp. by HHs	Government final consumption	Gross fixed capital formation	Exports	Industry outputs at basic prices
Sector 1	2,731	3	8,260	36	59	615	962	962	62	567	8,568	21,863
Sector 2	4	282	2,013	3,979	188	60	28	28	-	210	5,528	12,292
Sector 3	3,322	291	40,218	480	8,004	16,999	16,896	16,896	2,340	8,573	1,13,777	2,10,900
Sector 4	983	53	2,400	4,395	85	3,458	6,184	6,184	14	439	238	18,249
Sector 5	121	70	565	135	14,103	9,509	405	405	530	33,974	832	60,244
Sector 6	2,884	1,078	28,400	1,404	9,339	1,06,994	1,26,180	1,23,398	87,409	16,752	55,512	4,35,953
Imports	1,779	1,029	71,117	1,878	7,572	33,964	24,189	24,189	1,085	17,771	81,863	
Net taxes on products	129	67	497	706	249	8,651	22,908	22,954	(152)	10,233	-	
Total use at purchasers price	11,953	2,873	1,53,470	13,013	39,599	1,80,250	1,97,752	1,95,016	91,288	88,519	2,66,318	
Compensation of employees	2,336	520	35,083	1,629	14,339	1,51,784						
Value Added at basic prices	9,910	9,419	57,430	5,236	20,645	2,55,703						
Industry Output at basic prices	21,863	12,292	2,10,900	18,249	60,244	4,35,953						

Source: Illustration simulated using an I-O table in the report, "D'Heroncourt, J., Cordier, M., and Hadley, D. (2011), Input-Output Multipliers – Specification sheet and supporting material, Spicosa Project Report, Université Libre de Bruxelles – CESE, Brussels".

The loans from NBFCs are used either for household expenses (consumption smoothing) or productive uses. The productive uses, mainly informal sector small enterprises, require intermediate inputs and create value added.

The contribution through consumption of intermediate inputs produces multiplier effects on value of output, value added and employment which are calculated through the input output system.

**Figure 1.2: The contribution of Microfinance to the Economy: Illustration using NBFC-MFI operations**



Source: 2021, NCAER. "Present and Potential Contribution of Microfinance to India's Economy"

The 'direct and backwards indirect effects' have been estimated using the standard I-O output multipliers. The 'forward linkages' have been captured in the study by assessing the impact of the additional output of the 'informal sector' in a few specific sectors such as trade, manufacturing of food products, textiles, leather and leather products, 'paper and paper products', and agriculture.

Year 2018-19 was chosen as the reference year for estimating the contribution of microfinance sector to the economy as the latest year for which many of the parameters for the calculations are available is this year. The NBFC-MFI data formed

the basis for deriving the estimates of output, value added, and employment. These estimates were then extrapolated to the microfinance sector as a whole, using the proportion of loan disbursements by the NBFC-MFIs in the disbursement of loans by all the MFIs and SHGs in 2018-19. The 'multipliers' are calculated to link the output of the NBFC-MFIs and the borrowers to the overall output (gross value of output) of the economy. We begin with the estimation of value added in the NBFC-MFI sector, then proceed to first estimate the impact down the backward linkages through the output multipliers. The gross value of output across sectors is then translated into the 'Gross

Value Added', which is a comprehensive measure of the value of economic output.

The gross value of output is also translated into number of jobs generated using the 'employment multipliers'.

### 1.2.3 Contribution to the macroeconomy over the medium term: the Base, Best and Pessimistic scenarios

The analytical framework for assessing the impact of microfinance on the economy used in the study pointed to a number of factors influencing household income, employment through its forward linkages, and through these effects on the economy as a whole. This analytical framework allows us to examine the prospects for the sector and its impact over a medium term of the next 5-7 years based on alternative assumptions that determine the trajectories of the factors determining the expansion of the microfinance sector.

The analysis discussed so far has pointed to the impact of microfinance on the economy. However, the impact of the performance of the overall economy on microfinance has not been quantified. This impact may come from different channels such as the opportunities that the economy may provide to the growth of the microenterprises sector, which may need microfinance loans. The households experiencing rising income levels, especially among the lower income groups, may be looking for microfinance loans of higher value, the lower income rural households moving to urban areas, may also wish to avail of microfinance loans in the urban areas, based on their experience in rural areas, where microfinance is better established. The dynamics within the financial sector itself, such as the emergence of new institutions like SFBs or the use of banking correspondents by the commercial banks may improve the synergies of microfinance with the other lending formats. The MFIs may also be able to lend higher volumes of credit, as

they may be able to raise more funds in a growing economy. While recognising these channels by which the overall economic growth may have an impact on the performance of the microfinance sector, the study attempts to incorporate these effects on some of the key operational parameters of microfinance operations based on a set of assumptions.

The study evaluates three alternative scenarios, which essentially reflect the overall economic conditions and their impact on the parameters affecting the microfinance sector: the 'base case', which represents the likely scenario based on the present conditions; the 'best case' wherein the underlying parameters reflect an improved and optimistic level of performance; and the 'pessimistic scenario', in which the assumptions reflect a performance weaker than the base case due to weak external conditions. The key parameters which define the alternative scenarios are as follows:

1. Annual growth rates of the overall economy, measured by the GVA.
2. Growth of the potential client base for the microfinance sector as a whole, and the share of NBFC-MFIs in the microfinance MFI sector.
3. Rate of realisation of the potential client base, over the years reaching a targeted level at the end of the projection period.
4. Number of loans per borrower in a year.
5. Growth in the average value of the loan over the years, reflecting the rise in credit needs as the portfolio of loans may change with a larger number of small enterprises and rising income levels of households, in turn, requiring larger credit.

Based on this, the future contribution of microfinance to the overall GVA under various scenarios is discussed in Section 1.3.

### 1.2.4 Summing up: The harmonized regulations and the outlook for the future

A projection about the future must be done through the prism of the past.

Over the last decade, the gross loan portfolio of the microfinance sector has grown more than 16 times from Rs 17,264 Cr in 2012 to Rs 2,85,441 Cr in 2022. With its growing importance, the industry structure has also evolved with formal, regulated institutions like banks, NBFC-MFIs, SFBs & NBFCs having a 99% market share. Increasing adoption of digitalization and the strengthening of the lending ecosystem has supported this growth. The microfinance model today deploys an optimum mix of technology and human touch. A separate credit bureau for MF loans was set up in 2011. Since most MF loans have a weekly repayment cycle, the MFIs have invested in a robust technology framework to enable data upload to the credit bureaus at a daily or weekly frequency. Faster turnaround on new loan applications and customer service requests is achieved by use of tab-based solutions by the field officers who provide an assisted digital interface to the borrowers. Nearly 100% of microfinance loans are being disbursed digitally directly to the borrower's bank account. At the same time, concerted efforts to make the borrowers comfortable with digital repayments have shown very good results. For those who are slow in adoption, the option of cash repayments is kept open. All these initiatives are in addition to the weekly or fortnightly group meetings attended by the field officers of the lender.

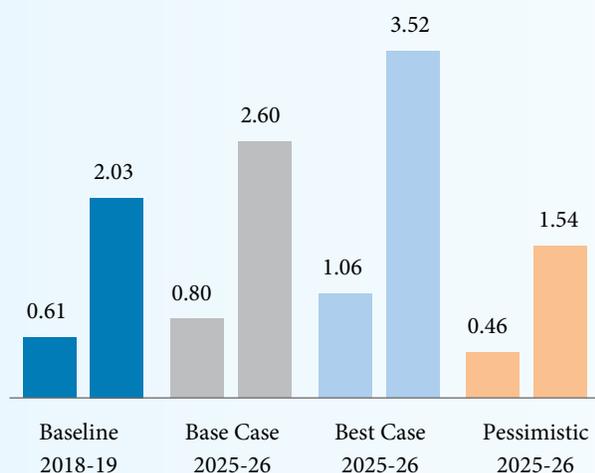
The RBI Regulations for microfinance released in March 2022 have increased the probability of the 'best case' scenario estimated in the study becoming a reality. The regulations allow freedom to the NBFC-MFIs to operate as per their board approved policies. They are aimed at supporting the development of the sector with greater access to funds and an ability to use more sophisticated underwriting models to offer better products to the consumer who is fast evolving.

The microfinance sector is well poised to play an important role in helping fulfil the goal of equitable growth.

### 1.3 Potential of microfinance

As discussed above, the NCAER report analysed the future potential of microfinance to the macroeconomy over the medium term using 2018-19 as the reference number and analysed three scenarios. The relationship between economic growth conditions and the microfinance sector is captured through assumptions regarding the key parameters of the sector including realisation of a potential client base, size of the loans, and the number of loans per borrower. The underlying key assumption is the rate of growth of the overall economy.

As shown in **Figure 1.3**, The study estimates that the contribution of the microfinance sector as a whole to the GVA is projected to reach 3.52 per cent of the GVA in 2025-26 from the present estimate of 2.03 per cent for 2018-19 in the best case scenario. For the same scenario, the contribution of NBFC-MFIs is estimated to reach 0.80 per cent by 2025-26 from the present estimate of 0.61 per cent for 2018-19.

**Figure 1.3: Contribution of microfinance to the Overall GVA (%)**

Note: Shorter bar represents NBFC-MFIs and longer bar represents microfinance universe, NCAER calculations

The study points out that the present and potential contribution of microfinance to the macroeconomy is significant, especially considering its operations that focus on meeting the credit needs of the lower income households and smaller enterprises. Further, the promise of microfinance in meeting the credit needs of the poor and assisting them to overcome poverty has been at the core of the policy interest. Microfinance also complements the efforts of public policies aimed at overall development and poverty reduction. Besides the economic impact of credit, there have also been social or non-economic benefits, one key area is women's empowerment.

### 1.3.1 Microfinance market size and demand

The estimation of microfinance market size and demand is a factor of three major variables,

- No. of households (HHs) that fall into eligibility category of annual income below Rs 3 Lakh as per new RBI guidelines.** This change from the earlier norm of Rs 2 Lakh

annual HH income in urban and semi urban areas and Rs 1.25 Lakh in rural areas has substantially increased the potential microfinance customer base. While data is not available on this parameter, in our estimate 70% of total HHs in rural locations and 50% in urban/semi-urban locations would fall in this category.

Extrapolating the growth in number of HHs (CAGR of 2.1% for rural HHs and 3.8% of urban HHs) based on Census 2001 to 2011 to the present year, the total number of rural HHs comes to 20.25 Cr and urban/semi-urban HHs to 11.27 Cr as of March 2022. Therefore, the total potential microfinance HHs in India as of March 2022 is 20.32 Cr.

- Average credit demand of microfinance HHs.** The new regulations allows maximum 50% Fixed Income to Obligation Ratio (FOIR) which means that the maximum indebtedness of a household from all sources at any point in time cannot be more than Rs 1.5 Lakh. However, not all HHs have an annual income of Rs 3 Lakh, so a better way to estimate is to look at existing average microfinance loan size per HH and average loan outstanding per HH.

For the FY 2021-22 the average loan outstanding per unique borrower (UB)<sup>1</sup> was Rs 49,249 as on March 31, 2022. During the period 2018-19 to 2021-22, the CAGR of average loan outstanding per UB was 10.7%.

- Depth of outreach, which means the number of potential HHs served by microfinance.** As on March 31, 2022 about 5.80 Cr unique borrowers (or HHs) were covered by microfinance providers which is around 28.5% of total potential HHs (of 20.32 Cr mentioned in point a above). During the period 2018-19 to 2021-22, the CAGR of depth of outreach was 2.9%.

<sup>1</sup> As a thumb rule, it is well accepted that microfinance is provided to one member of a HH, usually a women member. So, is fair to assume that a unique borrower is representative of a single HH.

Using these three factors and actual growth rates, MFIN estimates that as of March 2022 the total microfinance market size in terms of GLP Rs 10 Lk Cr. Considering the same CAGR of increase

in No. of potential HHs, average loan outstanding per UB and depth of outreach, the potential market size will reach Rs 17 Lk Cr by March 2026. **Table 1.5** shows the estimations.

**Table 1.5: Microfinance market size estimate (conservative)**

		Past CAGR*	Actual	Extrapolated*			
			21-22	22-23	23-24	24-25	25-26
A	Potential HHs, Cr	2.5%	20.32	20.83	21.37	21.91	22.48
B	Unique borrowers reached, Cr	5.5%	5.80	6.12	6.46	6.82	7.20
C	Av. loan O/s per UB, Rs	10.7%	49,249	54,797	60,969	67,837	75,478
D=A*C	GLP demand, Rs Lk Cr		10.01	11.42	13.03	14.87	16.96
E=B*C	GLP of the sector, Rs Lk Cr		2.85	3.35	3.94	4.63	5.43
F=E/D	% of demand covered	2.9%	28.5%	29.4%	30.2%	31.1%	32.0%

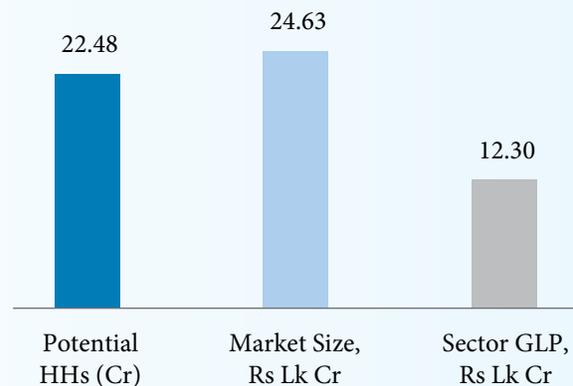
\* Using CAGR for the period 2018-19 to 2021-22

So, at current growth rate of the key parameters, microfinance would reach around 32% of the potential size by 2025-26. The fact is also that the numbers for 2021-22 are suppressed due the impact of the pandemic which took up half of the four year period from 2018-19 to 2021-22, and the CAGR of various factors during this period has been used for extrapolation. The microfinance industry has shown tremendous resilience and has recovered well from the Covid shock (discussed in detail in Chapter 3) and with the conducive operating and regulatory environment the growth expectations can be higher.

Therefore, assuming a CAGR of 14% from 2022-23 onwards for depth of outreach so that by 2025-26 the industry serves around 50% of the potential microfinance HHs and CAGR of 20% in average

loan O/s per UB, while keeping the HH growth rate static, the potential microfinance market size would be around Rs 25 Lk Cr with sector GLP of Rs 12.3 Lk Cr, as depicted in **Figure 1.4**.

**Figure 1.4: Estimated (liberal) microfinance market size by 2025-26**



### 1.3.2 Role which microfinance can play in providing other financial as well as non-financial services

The microfinance industry currently focusses on providing micro-credit to the borrowers. While credit is a key driver of financial inclusion, it's full potential cannot be achieved unless the excluded are able to access a gamut of other financial services like savings, insurance, pension, remittances etc. The borrowers/HHs which the microfinance industry serves are largely from the excluded category and given their reach in deep rural pockets as well as increasing urban presence, makes them an ideal vehicle for facilitating such services. Use of existing channels of microfinance in extending other financial services to the

excluded, apart from credit can play a major role in boosting the economy and in creating a lasting impact.

Limited financial and digital literacy among the microfinance borrowers (& excluded sections) and lack of awareness on the financial services available is one of the main reasons for their exclusion. Here also the microfinance providers can play an important role in promoting financial literacy.

Overall, the potential of the microfinance industry to create an economic as well as social impact is immense, and it is up to the policymakers to realise this facet and utilize it to ensure inclusive growth as well as furthering the mission of Digital India.

*Chapter-2*

# Microfinance regulation – A new paradigm of asset based regulation

Microfinance in India entered into a new phase in March 2022 with the release of Master Directions on Regulatory Framework for Microfinance Loans, by RBI. It has now created a level playing field for all types of regulated entities operational in the microfinance space. While the announcement has been welcomed by all stakeholders, it brought new challenges as well, particularly in getting the systems ready for implementation and monitoring of compliance of new guidelines not only at entity level but also at credit bureau and SRO level. This chapter touches upon the journey towards activity based regulations and the role which MFIN played in fructifying this and the challenges which need to be addressed in short to medium term.

## 2.1 Activity based regulations replacing entity-based regulatory approach

Financial market regulations aim to encourage sector growth by promoting competition and efficiency, ensuring customer protection, and promoting macroeconomic stability by identifying and managing risks to prevent market failure. At the same time, regulated entities incur a cost in terms of regulation administration and enforcement. An undesired effect of regulations could also be distortions to the financial market. If complying with the regulations becomes too cumbersome and costly, it might even force some

firms to exit or make the market unattractive for the entry of new firms.

The choice of an optimum regulatory regime – with entity-based and activity-based regulations forming the two ends of the spectrum, depends on multiple factors. The market structure in terms of the number and type of firms and their market shares, the breadth and depth of the linkages of the sector to the larger financial system, the maturity of the customer and her financial literacy levels, and the available grievance redressal mechanisms are some of the important factors to consider.

The microfinance regulations of Mar'22 are a good study in how a change in regulatory regime can evolve organically in response to the emerging market structure, self-regulation by the industry, evolution of the consumer, technology diffusion and development of sector specific institutions.

This Section revisits the context in which the RBI gave form to a new type of financial entity Non-Banking Financial Company - Micro Finance Institutions (NBFC-MFIs) in 2011 and the regulations which applied to them. It analyses how the sector, the NBFC-MFIs and supporting institutions, namely the microfinance credit bureaus and the SRO evolved over the last decade. It ends with a brief discussion on why the new regulatory regime for microfinance positions the sector well in terms of contributing to widespread credit availability.

The **Microfinance Industry has “earned” this regulation.** The industry has been growing rapidly and lacked strong guardrails in spite of best efforts and prodding by the SROs. Hence the industry has “earned” the regulation which will prevent over leverage of customers and will bring parity and transparency on pricing.

This regulation will also drive “innovation”. The amount of risk institutions can take will become less of a competitive edge encouraging institutions to look for other measures like service, pricing, financial education and bouquet of services to succeed. Geographical expansion will become a strong driver for growth as customer leverage will be controlled and this will be a big win for financial inclusion too.

Regulations can rarely be termed as a GIFT but this certainly is one.

### **Ajay Kanwal**

MD & CEO, Jana Small Finance Bank Ltd.

## **2.1.1 The birth of NBFC-MFIs and the entity-based regulations governing them**

The Malegam Committee report of 2011 recommended the formation of a new class of credit entity, namely, NBFC-MFI. Among other things, the committee was tasked to:

- Review the definition of microfinance and MFIs for regulating NBFCs undertaking microfinance
- Examine the prevalent practices of MFIs in regard to interest rates, lending and recovery practices from a ‘customer protection’ perspective
- Delineate the objectives & scope of regulation of NBFCs undertaking microfinance and the regulatory framework needed by the Reserve Bank to achieve those objectives.

A review of the existing regulations and the lending ecosystem was necessitated due to multiple reasons.

- A typical microfinance borrower comes from the low-income section of the society, has low financial literacy levels, lacks individual

bargaining power and has little financial cushion to absorb economic shocks.

- Microfinance was an innovation which was able to cater to the credit needs of such a client and offer her a chance to improve her economic status. Different types of entities-regulated as well as unregulated- were offering microfinance. While SHG-Bank linkage contributed to 58%, NBFCs had a market share of 34% and others including trusts, societies etc. accounted for the remaining 8%. Thrift and credit co-operatives were scattered across the country and there was no centralized information available about them.
- More than 75% of the funding to NBFCs for onwards lending came from banks and FIs including SIDBI. Additional funds came to the NBFCs through securitized paper held by banks and their investment in equity of NBFCs. Though still small in the context of total assets in the banking system, NBFCs were showing promise of rapid growth.

It is in this background that the regulations for the newly formed category of NBFC-MFIs were notified. They were targeted at encouraging the growth of the microfinance sector alongside

customer protection, improve regulatory oversight and avoid build-up of systemic risks.

The regulations clearly outlined the:

- Criteria for eligibility of a customer
- Level of indebtedness of the borrower which could be allowed
- Interest rates that could be charged

Among other things, an NBFC-MFI had to have not less than 85% of its net assets in the nature of 'qualifying assets'. At the same time, an NBFC which does not qualify as an NBFC-MFI was not allowed to have more than 10% of its total assets as microfinance loans. Eligibility criteria for the qualifying assets were clearly laid down in terms of the borrower's annual income, the amount and tenor of the loan, total indebtedness of the borrower, and the requirement of it being extended without any collateral.

The interest rate had to be the lower of

- Cost of Funds + 10% (for MFIs > Rs 100 Cr Gross loan portfolio)/ 12% (for MFIs, Rs 100 Cr Gross loan portfolio)
- 2.75 times of the base rate of 5 top banks in India. The base rate data was announced by RBI at the end of every quarter and applicable for the subsequent quarter.

In addition, just like other financial institutions doing lending, NBFC-MFIs had to comply with prudential norms about capital adequacy, asset-classification and provisioning norms. Given the class of customers catered to by microfinance, the Fair Practices Code was made stricter and the emphasis on corporate governance underlined. Additional measures were proposed to strengthen the ecosystem and aid its development

- Every NBFC-MFI had to be a member of at least one Credit Information Company (CIC), provide timely and accurate data to

the CICs and use the data available with them to ensure compliance with the conditions regarding membership of JLG (joint liability group), level of indebtedness and sources of borrowing.

- All NBFC-MFIs were encouraged to become member of at least one Self-Regulatory Organization (SRO) which is recognized by the Reserve Bank and will also have to comply with the Code of Conduct prescribed by the SRO.

Monitoring of compliance to the regulations had a 3-tiered structure:

- NBFC-MFI themselves supported by SRO
- Banks' lending to NBFC-MFIs
- Reserve Bank of India

While the responsibility for compliance to all regulations prescribed for MFIs lay primarily with the NBFC-MFIs themselves, they were to be supported by the SRO. In addition, banks' lending to NBFC-MFIs were required to ensure that systems practices and lending policies in NBFC-MFIs are aligned to the regulatory framework.

### 2.1.2 A decade of far-reaching changes

**Table 2.1** summarizes the rapid and deep-reaching changes which were underway in the different sectors across the country.

Penetration of microfinance increased manifolds. The GLP of the sector hit Rs 50,000 Cr in Mar'16, 1 Lk Cr in Mar'17, 1.5 Lk Cr in Mar'18, 2 Lk Cr in Mar'19 and 2.9 Lk Cr in Mar 2022. The number of unique borrowers has increased from 3.85 Cr in Mar'17 to 6.01 Cr in Mar'22. The structure of the microfinance sector also underwent a rapid change. Now, Banks (38%), SFBs (20%), NBFC-MFIs (35%) and NBFCs (8%) added to a nearly 100% market share. The regulator showed confidence in the management and governance practices of NBFC-MFIs by giving 1 NBFC-MFI

Universal banking license and 8 of them a license to become small finance banks. During this period, 3 MFIs had their Initial Public Offerings (IPOs).

Increasing penetration of mobile phones, faster communication due to apps and dissemination of information using social media platforms had a positive impact on awareness and knowledge levels of consumers. Availability of a transactions and savings account to every citizen due to Jan Dhan, increasing use of AEPS and expansion of BC network, and adoption of digital payments increased financial literacy and the comfort of consumers in dealing with institutions. The RBI strengthened the customer protection framework continuously. While the Banking Ombudsman had been in place since 2006, the ombudsman scheme for NBFCs was notified in 2018 and for digital transactions in 2019. An integrated ombudsman scheme combining these three was introduced in Nov'21. Customer can file complaints online, call up the call centre or write an e-mail or physical letter.

**Table 2.1: Chronology of events leading to the harmonized regulations in microfinance**

Year	Event
2011	Introduction of a new class of lender-NBFC-MFIs
2011	Launch of Microfinance Credit Bureau
2014	Guidelines for licensing of SFBs issued
2014	MFIN recognized as SRO by RBI
2015	Launch of Code of Conduct for the Microfinance Organisations
2015	RBI granted the banking licence to Bandhan, making it the first-ever microfinance institution to become a universal bank in India.

Year	Event
2014	Jan Dhan Scheme launched
2015	Satin Creditcare, an MFI, has an IPO
2015	RBI grants SFB license to 10 entities: 8 MFIs <sup>2</sup> get the license
2016	Aadhaar enabled Payment System (AePS) leveraged for Direct benefit transfer to beneficiaries bank account to facilitate banking services in rural and unbanked areas using the electronic identification system Aadhaar
2016	Number of mobile phone subscribers hits 100 cr.
2016	20 Cr Jan Dhan account opened
2017	Annual digital payments volume hits 1,000 Cr.
2017	Launch of Employee Bureau by Equifax
2018	Number of internet subscribers hits 50 Cr.
2018	Credit Access Grameen has its IPO in India
2018	RBI notifies Ombudsman Scheme for Non-Banking Financial Companies
2019	Launch of Code for Responsible Lending (CRL) for the micro credit industry
2019	Annual digital payments volume hits 2,000 Cr.
2019	Spandana Sphoorty has its IPO
2019	RBI notifies Ombudsman Scheme for Jan Digital Transactions
2019	RBI launches Integrated Ombudsman Scheme
2021	40 Cr. Jan Dhan accounts opened
2022	RBI issues Harmonized Microfinance Regulations

<sup>2</sup> Equitas SFB (Equitas Microfinance), ESAF SFB (ESAF Microfinance), Fincare SFB (Disha Microfin), Jana SFB (Jayalakshmi Financial Services), North East SFB (RGVN Microfinance), Suryoday SFB (Suryoday Microfinance), Ujjivan SFB (Ujjivan Financial Services), Utkarsh SFB (Utkarsh Microfinance).

The two institutions established to strengthen the MFI ecosystem after the 2011 regulations had grown from strength to strength. The MFI credit bureau has expanded to cover the credit history of more than 6 crore microfinance borrowers with nearly 60 Cr records. API integration between the MFIs and the credit bureau made the credit report of borrowers available in real time and played an important part in underwriting decisions. At the same time, widespread awareness of the report amongst borrowers had a positive impact on repayment behaviour. The SROs played an important role in identifying issues concerning customer satisfaction and worked towards evolving industry wide norms. A Code of Conduct (COC) was formulated which stressed on fair interaction, suitability of products and services, financial literacy and grievance redressal. The COC found industry wide acceptance and it was regularly updated to keep it abreast with the latest developments.

### 2.1.3 From entity-based to activity-based regulations

The regulations which had supported the growth of the microfinance sector for over the decade were in the need of a revaluation.

- The income of the microfinance target segment had increased over the years. Microfinance customers who had graduated in terms of loan size over the years and had benefited from access to credit also saw an increase in their incomes. Due to the cap on the income, NBFC-MFIs were losing out and were forced to let these customers go to a competitor.
- The new market structure faced a peculiar situation of regulatory arbitrage. While NBFC-MFIs had the same microfinance consumer profile as the banks and a similar market share, they had to comply with different regulations.
- In the absence of access to customer deposits, NBFC-MFIs borrowed funds from banks

while competing with them on the final interest rate offered to the borrower. None of the conditions under which an interest rate cap on lending can be useful seem to exist. The current market structure is competitive enough to not allow any lender to have pricing power. The increased customer awareness also ensures against super-normal profits being available to the lenders. An interest rate cap is also useful to cool down an overheated lending market – this was not the case. On the other hand, research studies have indicated that an interest rate cap can give rise to a possibility of lenders restricting their exposure to only ‘good credit’ clients. The lenders might also be constrained from incurring costs to expand to newer geographies.

### 2.1.4 Entity versus activity based regulations

An entity-based regulatory approach focusses on the cumulative impact of all of a firm’s activities. It also enables increased level of attention to a specific sector and is particularly appropriate when there is a potential for the Government/regulator to provide emergency assistance to the sector or individual entities. Entity-based approach is also useful when a particular set of firms is tasked with achieving a socially crucial policy objective. On the other hand, an activity based approach reaches market wide instead of focussing on a set of firms – it recognizes the fact that activities themselves propagate risk. It can meaningfully complement an entity-based framework.

In fact, the two approaches are mutually reinforcing. While an activities-based approach can be useful in identifying firms where a particular risk is concentrated, a firm-based supervision model provides an opportunity to identify potentially risky activities. A framework which uses the two approaches optimally reduces the potential of market distortions which could be detrimental to existing players or new entrants.

## 2.2 A comparison of old vs new regulations

The new guidelines not only brings about a change in regulatory approach towards microfinance but has also provided clarity (in comparison to the previous master direction) on definition of microfinance, enhanced responsibility of the Board of regulated entities (REs) in framing policies for complying with certain conditions and most importantly unhinged the regulatory caps for a class of institutions (NBFC-MFIs) that were created primarily for providing microfinance services to the low-income segment. Some of the key changes are:

- **Applicability:** The provisions of the new master directions are applicable to all regulated entities including all commercial banks (excluding payment banks), all cooperative banks and all NBFCs including microfinance institutions (MFIs) and housing finance companies (HFCs). Earlier the master directions for microfinance was meant only for NBFC-MFIs.

The new regulations were also made applicable to Not for Profit entities with Asset size greater than Rs. 100 Cr and such institutions will be required to take NBFC MFI license.

- **Definition of microfinance loan:** Is now defined as collateral free loan given to HHs with annual HH income less than Rs 3 Lakhs. HH defined as husband, wife and unmarried children. In the earlier circular HH income level was defined separately for urban/semi-urban and rural locations but a HH was not defined.
- **Assessment of HH income:** Now, REs need a board-approved policy for assessment of HH income to identify HHs eligible for microfinance loans and they also have to mandatorily submit this information to the Credit Information Companies (CICs).

SROs can also develop a common framework for guidance to their members, so clearly a greater role of both RE's Board as well as their industry body. The earlier regulations did not prescribe how HH income assessment would be carried out and was open to subjectivity.

- **Assessment of repayment obligation:** The new regulations have put additional responsibility on the Board of REs to have an approved policy on limit of repayment outflow vis-à-vis HH income, with maximum permissible limit of 50% of income. Further, repayment obligation shall include the loan under consideration and all historical loans (collateral free microfinance loans as well as collateralized) of the HH including principle as well as interest payment. The past regulations did have a cap on indebtedness level of Rs 1.25 Lakhs, but it was not linked to HH income and did not provide clarity whether only microfinance loans or all loans are to be considered to calculating indebtedness and was applicable only for NBFC-MFIs.
- **Pricing of loans:** The revised regulations have removed all caps on pricing (based on a formula related to cost of funds plus margin or 2.75 times base rate of Top 5 banks, whichever is lower) and which were applicable for NBFC-MFIs. Further, like in assessment of HH income and repayment obligation, the Boards of all REs has been entrusted to frame pricing policy for microfinance loans which shall contain an interest rate model for an all-inclusive interest rate. In addition, each RE is now required to provide each client a standardised simplified factsheet for all loans which shall disclose all charges and fee to be paid by the client and an all-encompassing interest rate. However, the regulations also specify that the interest rates should not be usurious and will be subject to supervisory scrutiny.

- Qualifying asset norms:** These are applicable only for NBFC-MFIs and NBFCs and as per new regulations, the qualifying assets (QA) for NBFC-MFIs was revised to 75% of total assets, changed from 85% of net assets in the earlier guideline. The QA limit for NBFCs was increased from 10% in earlier guideline to 25% of the total assets. Further, the QAs are basically loans as per the new definition of microfinance loan, unlike earlier when several conditions had to be met including borrowers' HH annual income, indebtedness cap, loan size based tenure, loan purpose primary for income generation etc.
  - Disclosures:** The new regulations also focus on transparency and disclosures from the REs on pricing of loans, collection practices and conduct towards their microfinance borrowers. This includes standardised simplified factsheet for loans, display of minimum, maximum and average interest rate charged on microfinance loans by REs on all promotion materials, website and in their offices in vernacular and submission in supervisory returns, advance intimation to clients in case of any changes in pricing plus display of Fair Practice Code (FPC) in office/branches/website. In the earlier circulars, guidelines on disclosures were there but not so exhaustive.
- Apart from the above changes, the new master directions emphasizes on:
- Training of field staff to make necessary enquiries regarding the income and existing debt of the household
  - Free of cost training to borrowers, as required
  - Some activities that will be deemed harsh recovery practices (taken from Industry Code of Conduct)
  - Need for establishing a dedicated grievance redressal mechanism for recovery related grievances.

In MFIN's view the new regulations will be beneficial for both microfinance clients as well as the REs. **Box 2.1** encapsulates these benefits.

### **Box 2.1: How will the new regulations be beneficial for all**

Most importantly, it removes the regulatory arbitrage which existed earlier when only 1/3rd of the providers (NBFC-MFIs) were under microfinance specific regulations. The new guideline creates a level playing field for all REs and will ultimately benefit and protect the customers from indebtedness and unethical practices.

The HH income limit has been revised to Rs 3 Lk from the earlier Rs 2 Lk in urban/semi-urban locations and Rs 1.25 Lk in rural locations. This has increased the size of microfinance market and the REs will now be able to serve "middle" segment which gets lost between the microfinance market and the typical banking customer.

Further, the distinction between rural and urban has been removed which is a right step as with migration and interlinkages the boundaries between rural/urban often get blurred. As such households in rural areas would not be disadvantaged with lower credit limit despite have higher capacity to pay.

The FOIR of max 50% of (from all sources) a household's monthly income is a better approach to the indebtedness issue, unlike the earlier method of limited number of lenders and fixing a cap on loan outstanding & that too only for NBFC-MFIs. The inclusion of board approved policy on HH income assessment and HH level 360° CB check to estimate FOIR adds robustness to the process and would ensure that clients are protected from over lending and in a way lead to timely repayments of loans and good portfolio quality.

Finally, deregulation of the lending rates for microfinance loans will have a far reaching impact of RE's sustainability and encourage healthy competition among them which in the medium to long term should bring down the lending rates. The new policy stipulates that all REs will need to have a board approved policy on pricing, which will be subject to regulatory scrutiny and clients have to be given a fact sheet disclosing an all-encompassing APR. This flexibility in pricing is expected to spur innovation, incentivize REs to reach excluded areas as they can price for risk and at the same time ensure transparency in pricing disclosures to the customers.

**Table 2.2** below provides a comparative view of old V/s new regulations. A chronology of relevant policy and regulatory developments during this year is provided in **Annex A**.

**Table 2.2: Comparison of old V/s new regulations**

Key aspects	Previous Regulations	New Policy
Household definition	Not defined	Clause 3.1: The household shall mean an individual family unit, i.e., husband, wife and their unmarried children.
Household income & its assessment	Rural household: Annual income not exceeding Rs 1,25,000 Urban and semi-urban household: Annual income not exceeding Rs 2,00,000	Clause 3.1: A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to Rs 3,00,000. Clause 3.2: All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to Rs 3,00,000, shall be considered as microfinance loans. Clause 4.1: Each RE shall put in place a board-approved policy for assessment of household income.
	NBFC-MFIs may rely on self-certification from the borrowers and their own local enquiries on assessing the annual household income.	Clause 4.2: Self-regulatory organisations (SROs) and other associations/ agencies may also develop a common framework based on the indicative methodology. The REs may adopt/ modify this framework suitably as per their requirements with approval of their boards.
Indebtedness	Total indebtedness of the borrower shall not exceed Rs 1,25,000; Provided that loan, if any availed towards meeting education and medical expenses shall be excluded while arriving at the total indebtedness of a borrower.	Clause 5.1: Each RE shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 per cent of the monthly household income. Clause 5.2: The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration. Clause 5.3: Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

Key aspects	Previous Regulations	New Policy
Pricing	<p>i. Margin cap, cap on the difference between the amount charged to the borrower and the cost of funds to the NBFC-MFI, shall not exceed 10 per cent for large MFIs (loans portfolios exceeding Rs 100 crore) and 12 per cent for the others.</p> <p>ii. The interest rates charged by an NBFC-MFI to its borrowers shall be the lower of the following:</p>	<p>Clause 6.1: Each RE shall put in place a board-approved policy regarding pricing of microfinance loans</p> <p>Clause 6.2: Interest rates and other charges/ fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.</p> <p>Clause 6.3: Each RE shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet</p>
Pricing	<p>a) The cost of funds plus margin as indicated in para (i) above; or</p> <p>b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.</p> <p>iii. NBFC-MFIs shall ensure that the average interest rate on loans sanctioned during a quarter does not exceed the average borrowing cost during the preceding quarter plus the margin, within the prescribed cap.</p>	<p>Clause 6.6: There shall be no pre-payment penalty on microfinance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.</p> <p>Clause 6.9: As part of their awareness campaigns, SROs/ other industry associations may publish the range of interest rates on microfinance loans charged by their members operating in a district. SROs/ other industry associations may also sensitize their members against charging of usurious interest rates.</p>

Key aspects	Previous Regulations	New Policy
CB Reporting	<p>Weekly reporting of loans tagged as microfinance to the CB by NBFC-MFIs.</p> <p>Not for profit entities like Societies and Trusts are not allowed to report to CB</p>	<p>Clause 4.3: Each RE shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with CICs.</p> <p>Clause 5.4: Each RE shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, the RE shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.</p>
Qualifying Assets	For NBFC-MFIs Not less than 85% of its net assets are in the nature of “qualifying assets.”	<p>Clause 8.1: The definition of ‘qualifying assets’ of NBFC-MFIs is now being aligned with the definition of ‘microfinance loans’ given at Clause 3. The minimum requirement of microfinance loans for NBFC-MFIs also stands revised to 75 per cent of the total assets.</p> <p>Clause 8.2: The maximum limit on microfinance loans for such NBFCs (i.e., NBFCs other than NBFC-MFIs) now stands revised to 25 per cent of the total assets.</p>

## 2.3 Regulation to implementation

As discussed above, the harmonized regulation for microfinance requires the microfinance lenders, especially NBFC-MFIs, to redefine their processes and internal guidelines based on their board approved policies. The important aspects of the regulations which motivated these changes and try to convey a flavour of the myriad activities which went on behind the scenes, are narrated below.

### 2.3.1 Household income assessment

Since microfinance borrowers are mostly employed in the informal sector, earn in cash, have multiple income streams, and volatile/seasonal cash flows, estimating the annual income is an intensive exercise. It comprises of personal interaction with the borrower and her family members, visit to the place of work/residence and discussions about income, expenses and assets. Another requirement of the regulations is that the annual income and indebtedness must be calculated at the household level with a household defined as the husband, wife and their unmarried children. While the regulations have suggested an indicative methodology for income assessment, each lender is required to finalize its own board approved policy.

To operationalize the policy, appropriate changes in the processes and systems were required for data capture, transfer and storage. While all the institutions were following the above mentioned process with different levels of robustness, in many cases it was done informally, and the data was not being captured and stored.

To guide the efforts of its members to develop a policy for income assessment, a 'guidance note for household income assessment' was released by MFIN on 16<sup>th</sup> Mar'22. It provided an indicative framework which Institutions could use for framing their policies. This was followed by an advisory issued on 4th Apr'22.

Once the organization level policies were in place, an exercise to train all the field staff in the essentials of household income assessment was carried out by the members. This was required since income assessment is done during face-to-face interactions in the field. As a part of its capacity building initiative, MFIN supported the efforts of its members by:

- Developing posters in 9 languages on the main points that borrowers should know. It talked about the definition of household, income assessment, qualification criteria for a microfinance client and the maximum amount of indebtedness allowed. These posters were put up in the member branches across the country.
- Videos detailing new regulatory framework for microfinance for both customers and employees. These were widely distributed and hosted on the MFIN website as well as the YouTube channel of MFIN for easy accessibility
- Eight audio messages in nine languages for use in the IVR systems of members were widely disseminated.

### 2.3.2 The ratio of monthly loan obligations of the household & monthly household income

The level of indebtedness of the household is measured by the ratio of monthly loan obligations of the household and monthly household income. Firstly, the board approved policy of the lender should include a cap on this ratio which is not more than 50% for approving new loans. The estimation of income played an important role in calculating this ratio and the eligibility of the consumer for an additional loan. Secondly, the data collected by the field officers during their interaction with the borrower must be verified using the credit report of the household obtained

from the MF credit bureau. Third, since the level of indebtedness is calculated at HH level, reports of all the members of the HH are required to be obtained from the credit bureau.

### 2.3.3 Pricing of microfinance loans

The interest rate offered to a borrower has to be based on a well-defined interest rate policy which must be approved by the board. The policy has to clearly delineate the various components of the interest rate i.e. cost of funds, risk premiums based on different risk factors (ex. geographical location, customer segment, customer vintage, loan tenor etc.) and margin. The cap on the maximum interest rate which was in place till Mar '22 was removed with the caveat that the interest rates should not be usurious.

MFIN supported the efforts of its members by developing guidance notes on pricing of loans as well as HH income assessment. These guidance notes were issued on 4th Apr'22 to help the Boards of Member REs evolve a policy and framework for the pricing of the microfinance loans for their respective organizations.

### 2.3.4 Steps taken for self-regulation

To support initiatives for better transparency, MFIN put in place a schedule for the members to share information on income assessment, level of indebtedness of HH and the applicable interest rates. This information forms an important part

of the quarterly report which is shared with the RBI. In addition, the members are required to share the pricing details on their websites and disseminate using other channels. Further, the Industry Code of Conduct has been revised to reflect the new regulatory guidelines. More details are provided in **Annex B**.

### 2.3.5 Strengthening the credit bureau ecosystem

The new regulations necessitated changes in the Uniform Customer Reporting Format (UCRF) which is used by the lenders to submit client level data to the credit bureaus. MFIN took a lead in highlighting these requirements and facilitating the deliberations of the working group formed by RBI for this purpose. After widespread discussions, the RBI notified the following changes in the UCRF on 7th Jun'22, as shown in **Table 2.3**.

Since the underwriting is required to be done at the HH level, the credit bureau reports of all the HH members are now required. This has an impact on the process time and also increases the expenses incurred by the lender for accessing the reports from the bureau.

Keeping this in mind, the RBI has asked the CICs to prepare a comprehensive CCIR of the household which will include the details of all the enquired members of the household.

**Table 2.3: Changes in the UCRF by RBI in context of new guidelines**

Segment	Field Name	Required/ Required when present (current status)	Required/Required when present (modified to)
Member	Total Monthly Family Income	Required	Required
Account	Number of Instalments	Required when present	Required
Account	Repayment Frequency	Required when present	Required
Account	Minimum Amt Due/ Instalment Amount	Required	Required

### 2.3.6 Pending policy issues which require attention to make implementation & compliance of the regulations smoother

While the new guidelines are progressive and built on the previous regulations which nurtured the sector well, there are some policy issues which remain to be addressed, as highlighted below.

#### Revised Qualifying Asset (QA) norms for NBFC-MFIs

Clause 8 of the new guidelines provides the new definition of QA

- For NBFC-MFIs as 75% of total assets, changed from 85% of net assets in the earlier guideline.
- The QA limit for NBFCs was increased from 10% in earlier guideline to 25% of the total assets.

While it is understood that the link of QA to total assets for NBFC-MFIs has been made to make it congruent with NBFCs, it would create major issues. Rather than being a relaxation, the non-qualifying scope has become more stringent for some NBFC-MFIs. The major problems with linking QA to Total Assets for NBFC-MFIs are:

- a) QA at 75% of total assets is equivalent to around 88% of net assets if an NBFC-MFI has 12% of assets in cash and bank balances and money market instruments. Based on the data of MFIN members, this ratio is in the range of 12% to 16% depending on size of the institution.
- b) Over a period of time, especially since the RBI instructions on Liquidity Coverage Ratio in November 2019, NBFC-MFIs with total assets more than Rs 5,000 crore have to maintain 60% to 70% of High-Quality Liquid Assets (HQLA) of total net cash outflows over

the next 30 calendar days, Institutions carry more liquidity in order to meet the Liquidity Coverage Ratio (LCR) requirements. Considering that cash outflows depend on repayment date of debt, while asset maturity is fixed at the time of loan, Institutions need to carry liquidity which meets both peaks and troughs of debt repayments.

- c) Notably, ~40% of the NBFC-Sector portfolio is covered by LCR guidelines and from the policy direction and sector growth pattern, it is likely that the number of institutions covered by the LCR guideline will only increase.
- d) The external situation during and after COVID has also necessitated institutions to carry higher liquidity. During COVID, while clients were given moratorium, not every debt provider gave moratorium to NBFC-MFIs. It is due to liquidity buffer, none of the NBFC-MFIs defaulted in debt payment.
- e) In short, both regulation and external situation necessitate a higher liquidity buffer, which taken together with other items like Fixed Assets, effectively allow only 80% to 85% of total assets to be deployed in loans.
- f) Even if we take 85% available for lending, 75% of total assets allows only 10% of Assets to be deployed in non-qualifying loans.
- g) Further, linking to total assets would lead to breach of 75% QA clause even while the NBFC-MFI remains compliant with earlier net assets norm.
- h) It is also a fact that average Direct Assignment (DA) exposure in the industry ranges from 10-15% of loan book while single transaction ranges from 3-5% of the loan assets and because of PSL norms it is QA which gets selected by the originator. Since DA cannot be on NBFC-MFI books, this portfolio (which is a QA) would have to be reduced from the Total Assets and Qualifying Assets, and would be a major factor in breach of QA norms.

- i) In future, if the current norm of QA is there, there will be periodic breaches whenever a NBFC-MFI receives a large term-loan or equity infusion as it takes a while to convert them into a loan asset.
- j) While it is recognized that NBFC-MFIs should keep their focus on QA, it needs to be ensured that there is some scope for diversification, but the current regulations even reduce the scope for diversification earlier.

The solution to this is to ensure that the larger policy objective is met. The larger policy objective as understood is to ensure that NBFC-MFIs remain focussed on microfinance. The other aligned objective has to be provision of some scope for diversification. As such, it will be better if the definition of QA is linked to on-book Gross Loan Portfolio (GLP) instead of total assets, which will achieve the policy intent of non-dilution of core lending focus as also avoid such issues and provide the necessary space for product innovation and risk diversification.

### CIC reporting

As discussed above, the Technical Working Group (TWG) which was formed by RBI to suggest changes in the UCRF has completed its task and mandatory reporting of field related to monthly household income, no. of instalments, repayment frequency and instalment amount has been included in the UCRF. However, better clarity on the below aspects would strengthen the credit bureau reporting system:

- Consent of individuals are required for pulling their CCIR. A typical microfinance HH may not have all adult/earning members present during group meetings or at the time of loan processing. In such a scenario, how can consent be obtained for members who are not present, for pulling their CCIR?
- The frequency of submitting customer loan records to the CICs varies for different REs. While NBFC-MFIs have consciously

progressed to daily submission of records to CICs, most other REs continue to update on a monthly basis. This data asymmetry at the time of generation of Credit Information Report (CIR) poses risk of over lending, as a borrower may have loans from multiple REs which are yet not reported. Therefore, ideally, reporting of borrowers' data to CICs should move to at least weekly basis, if not daily, by all REs for an accurate assessment of household debt with a defined timeline for moving to daily submission.

- Similarly, reporting of SHG borrowers' data (under the SHG Bank linkage programme) to the CICs needs to be mandated to ensure that household debt assessment is accurate. It is estimated that there is an overlap of around 20% to 30% between the SHG borrowers and microfinance borrowers.

### Expanded role of the SRO

MFIN as SRO has played a key role in building responsible finance through measures like credit bureau ecosystem, developing and enforcing Code of Conduct, a robust grievance redressal system, Employee bureau and many other such sector building activities. The success of MFIN as SRO has provided proof of concept for the SRO framework.

MFIN took the lead in formulating Code of Responsible Lending (CRL) across Regulated Entities as a precursor to activity based regulations. This was done predicated on the surmise that for responsible finance, the entire sector comprising of NBFC, Banks and SFBs have to work on common operational best practices. It brought banks, SFBs and NBFCs also with MFIN as Associate members.

With the change in regulations to being activity based, it is desirable that SRO function should also be expanded across all REs rather than being voluntary.

## Chapter-3

# Resilience of microfinance – A performance update

The microfinance industry has seen several upheavals over the last couple of decades and has an excellent track record on emerging strong out of crisis events, whether at national or regional/state level. To name a few:

- National level (AP crisis and demonetisation)
- Regional/state level (most recently Assam problem and in the past Kolar and Krishna crisis)
- Disaster events (Cyclones Fani in Odisha, Ockhi in Kerala, Gaja in Nagapattinam, Maharashtra floods).

The NBFC-MFIs lost about 5% of the book during demonetisation but were still able to bounce back and medium to long-term investors never lost confidence on the sector's ability to revive. This is evident from continued equity infusion in NBFC-MFIs over the past years – around 3.7 times increase from an Equity base of Rs 4,391 Cr as on March 31, 2017 to Rs 16,140 Cr as on March 31, 2019 after the demonetisation phase. Even during the last three years which includes two pandemic years, the NBFC-MFIs recorded around 33% increase to Rs 21,419 Cr as on March 31, 2022 over Mar'19 numbers.

It is without doubt that the Covid-19 pandemic has been one in a century type of event which disrupted all sectors, not only microfinance. This chapter takes a look on the impact of the pandemic on the financial sector, the response of policy makers and regulators in ensuring sustenance and how well the microfinance sector has recovered from it.

### 3.1 Impact of the pandemic and recovery

In 2020, the world witnessed an unprecedented event in the form of Covid, which led to several lockdowns and restriction. Most economies are in the recovery phase from the impact of Covid. [Global supply chain](#) was crippled leading to escalation of prices of commodities<sup>3</sup>. Instability in geopolitical situation played its part in inflationary pressure as well. As per the World Bank research the pandemic has pushed close to 88 million people worldwide into extreme poverty. [Biggest chunk of the “new poor”](#) will come from South Asia followed by Sub-Saharan Africa<sup>4</sup>.

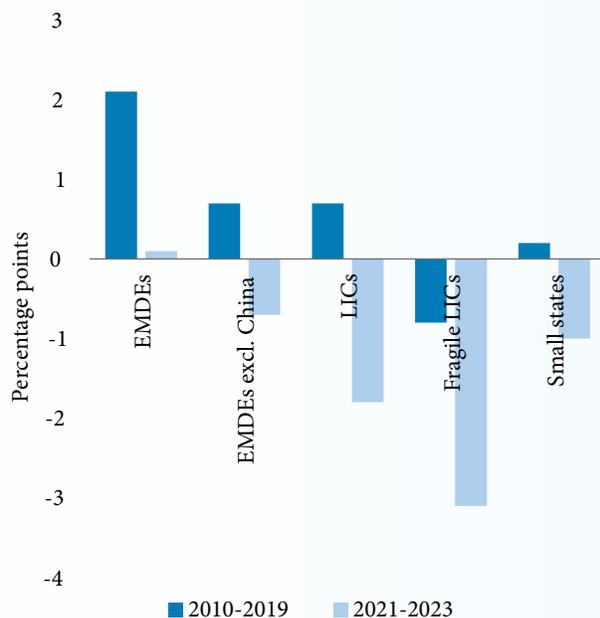
<sup>3</sup>2022, April 29. RBI, “Scars of the Pandemic”

<sup>4</sup>2022. The World Bank. “2020 Year in Review: The impact of COVID-19 in 12 charts”

### 3.1.1 Global scenario of economic recovery

For most global economies, the growth momentum either came to a halt or deceleration started due to economic fallout of Covid. As shown in the **Figure 3.1**, there is a marked downwards trend in growth of per capita income as compared to pre-COVID levels.

**Figure 3.1: Per capita income growth relative to advanced economies**

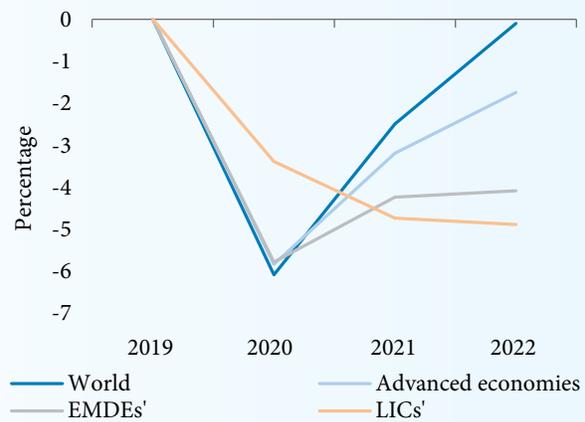


Source: World Bank, 2021, Section – Lasting Legacies<sup>5</sup>

However, the projections in recovery of economies as shown in the **Figure 3.2** indicate that the global economic output is on the verge of reaching the pre-pandemic levels. There is a marked variance in the [recovery trajectory of Emerging Market and Developing Economies](#) (EMDEs – which have almost reached pre-pandemic levels) and Low-Income Countries (LICs, which are still

struggling to come out of the impact of Covid). Factors affecting the economic recovery range from vaccination levels to geo-political scenarios of the countries.

**Figure 3.2: Deviation of output from pre-pandemic levels**



Source: World Bank, 2021, Section – Uncertain Outlook<sup>5</sup>

[Policy initiatives](#) such as income support, financial assistance to SMEs, tax relief, loan assistance (moratorium, guarantees or interest rate subsidy) and benefits that target women have been used by Governments to tackle the impact of Covid, to ensure survivability and promote economic recovery to various degrees of success.<sup>6</sup>

### 3.1.2 Indian context

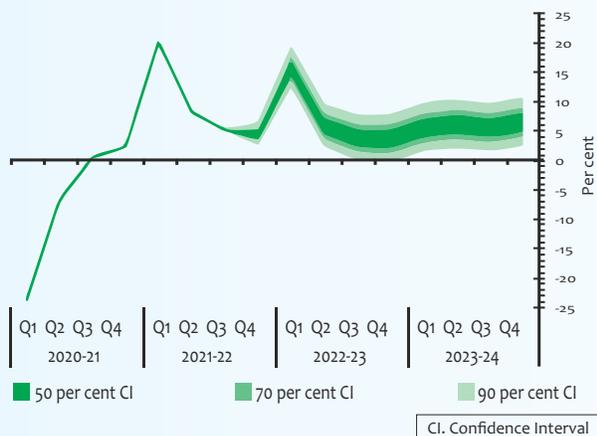
India went through two successive waves of the pandemic in the years 2020 and 2021. Nonetheless, economic growth seen through growth in GDP showed that economic recovery is showing promising signs. Data from [Monetary Policy Committee](#) shows a healthy recovery in GDP growth percent as shown in **Figure 3.3**.<sup>7</sup>

<sup>5</sup>2021, June. The World Bank featured story, “The Global Economy: on Track for Strong but Uneven Growth as COVID-19 Still Weighs”.

<sup>6</sup>2021, IMF. “Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic”

<sup>7</sup>2022, RBI, “Monetary Policy Review”. Section 1.3, “The outlook for growth”.

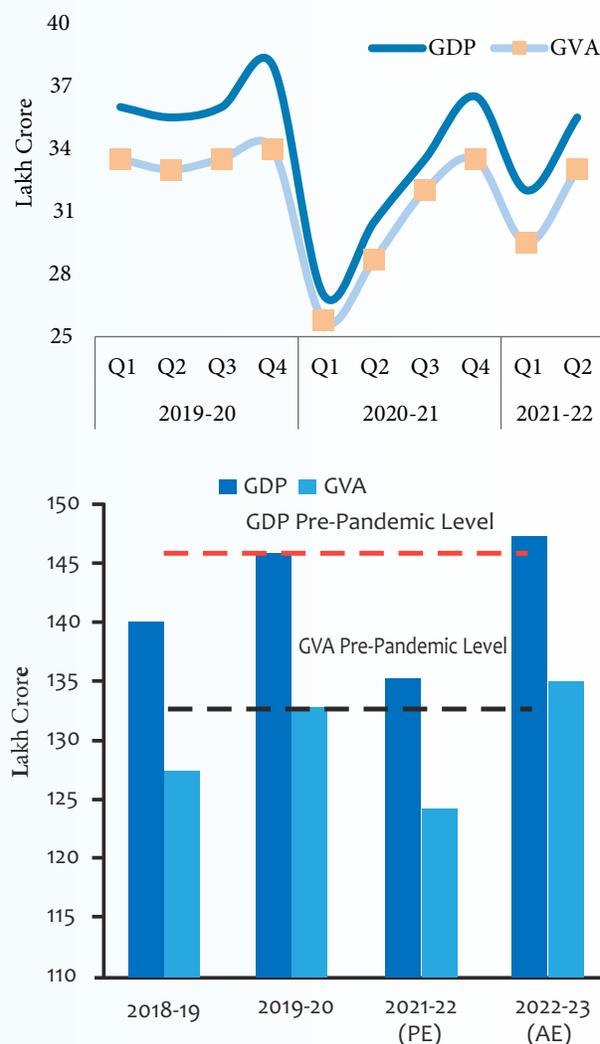
**Figure 3.3: Projection of growth in Real GDP (YoY)**



Source: World Bank, 2021, Section – Lasting Legacies<sup>7</sup>

The results and estimates of outlook for the economy clearly suggest that there was a contraction in the first quarter of 2020-21 corresponding to the first wave. As a complete lockdown ensued, economic activity came to a standstill. In the subsequent quarters, with easing of lockdown and revival of economic activity the impact reduced and in Q3 of 2020-21 GDP contraction stopped giving way to a sharp recovery. But for the second wave of Covid, the recovery looked well on track. As apparent, the second wave led to another episode of slump in economic activity which stretched for further two quarters ending in Q3 of 2021-22. Nonetheless, data on Gross Domestic Product and Gross Domestic Value created during the quarters and financial year pre and post pandemic (**Figure 3.4**) reveal a similar story. Both GDP and GVA have exceeded pre-pandemic levels in the FY 21-22 as per Advance Estimates (AE)<sup>8</sup>.

**Figure 3.4: Trend of GDP growth and GVA**



Source: Economic Survey 21-22<sup>8</sup>

### 3.1.3 Sectoral performance in terms of economic recovery

The Government took various steps to assist economic recovery including increasing the capital expenditure by as much as 24% over the revised estimates (REs) of 2021-22 budget as shown in the **Figure 3.5**. The capital expense is

<sup>8</sup> 2022, January, Department of Economic Affairs, Ministry of Finance. “Economic survey 2021-22”, Section 1.2, “Economy recovers past Pre-Pandemic levels”. NSO, MoSPI.

on an upward trajectory for 2022-23 as per the base estimates as well.<sup>9</sup> Government announced schemes such as the loan guarantee scheme for Covid affected sectors, Emergency Credit Line Guarantee Scheme, Credit Guarantee Scheme for MFIs and multiple other initiatives. To boost manufacturing, among other initiatives, [Government announced](#) production linked incentive scheme (PLI Scheme) for multiple sectors.<sup>10</sup>

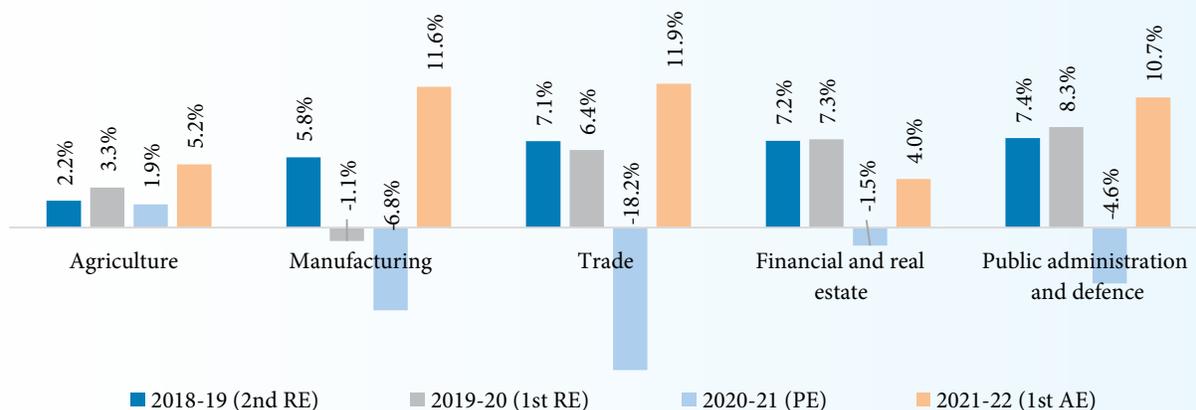
**Figure 3.5: Capital expenditure as percent of GDP**



Source: Economic Survey 2021-22, Table 2.4<sup>8</sup>

Rural economy in general and agriculture in particular were less affected by the outbreak of pandemic perhaps due to the pandemic affecting densely populated urban centres more. [Data from](#)

**Figure 3.6: Sectoral growth in GVA (% YoY)**



Source: Economic Survey 2021-22, Table 1.3<sup>8</sup>

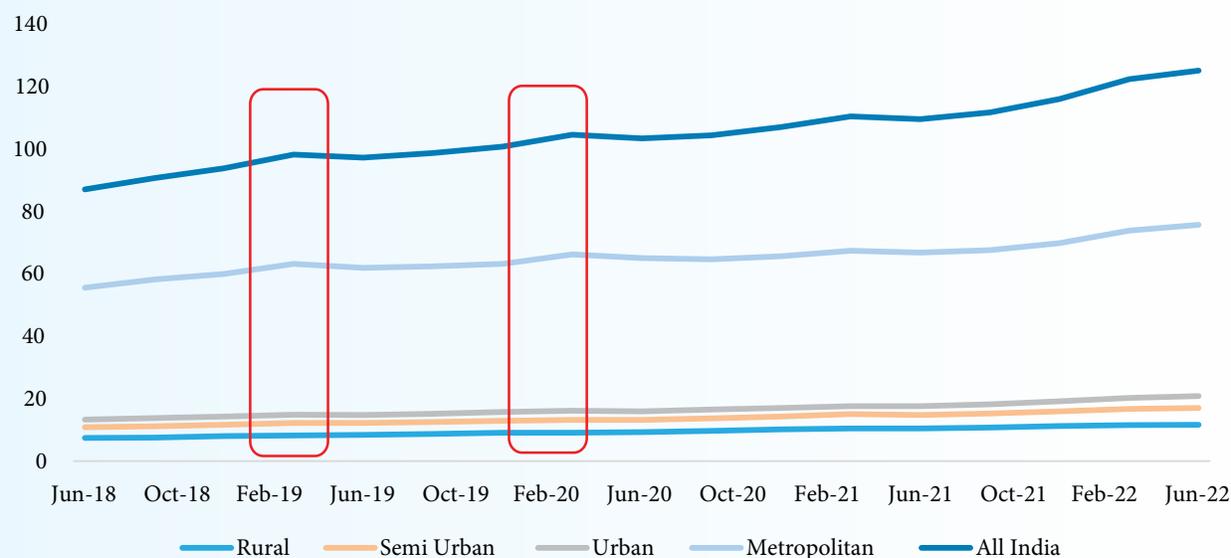
<sup>9</sup> 2022, Feb 01. Ministry of Finance, "Press Release on Union Budget 2022-23 on fiscal deficit, capital expenditure and market borrowings."

<sup>10</sup> 2021, Jun 28. Ministry of Finance, "Press Release on measures to provide relief to diverse sectors affected by the 2nd wave of Covid-19."

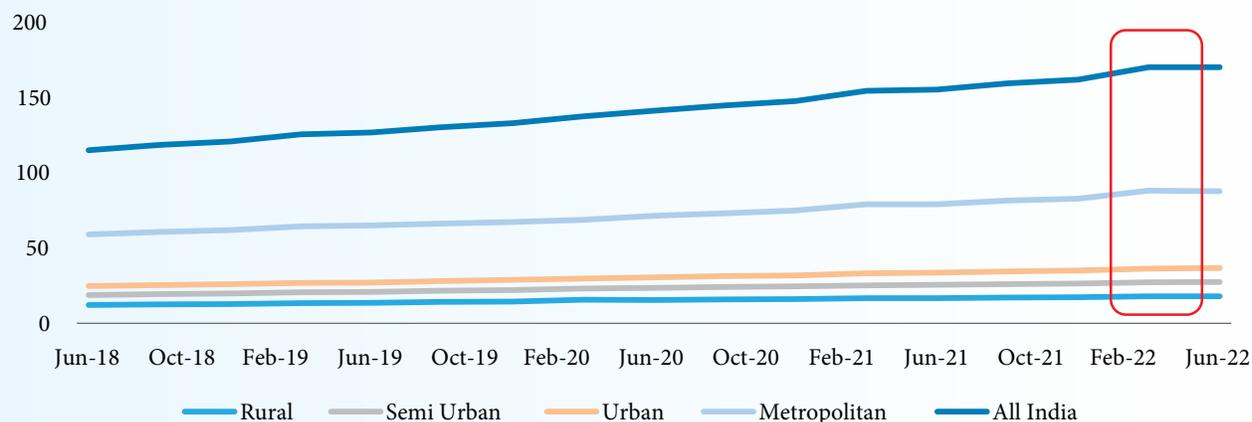
[Union budget](#) reveals that in terms of Gross Value-Added, agriculture on a YoY basis continued to grow despite all challenges (Figure 3.6). Data related to reduced demand of MNREGA and indicators such as Tractor sales indicate in this direction. Trade sector got affected the most due to restrictions and various other bottlenecks. However, as can be seen all sectors have picked-up pace.

### 3.1.4 Performance of Indian financial sector and recovery from Covid

As shown in the **Figure 3.6** and based on reports of Reserve Bank of India impact of Covid on financial sector was lower as compared to other sectors like manufacturing and trade. There is a steady growth in both deposit and credit from pre-Covid to post-Covid era. Credit growth in the Covid phase understandably showed slight drop of momentum as shown in the **Figure 3.7** below but the growth momentum resumed as soon as the spread of infection was controlled and as vaccination efforts of the Government started showing improvement in situation on ground. Deposit growth (**Figure 3.8**) continued growing till Q4 FY 20-21 after which there was a slight slowdown. This could be explained by higher expenses right after lifting of restrictions leading to lower savings and deposits in banks.

**Figure 3.7: Bank credit across geography type (Rs Lk Cr)**

Source: 2022, June. “[Database of Indian Economy Reserve Bank of India Data Warehouse](#)”, Statement No.3A.

**Figure 3.8: Bank deposit across geography type (Rs Lk Cr)**

Source: 2022, June. “[Database of Indian Economy Reserve Bank of India Data Warehouse](#)”, Statement No.3A.

Some important [fiscal and monetary policy initiatives](#) and decisions which assisted in infusing growth in financial sector<sup>11</sup> are:

- Extension of Emergency Credit Line Guarantee Scheme (ECLGS) till March 2023 with total cover of up to Rs 5 Lakh Crore
- Extension of Credit Guarantee Scheme for Subordinate Debt (CGSSD) till March 2023
- Additional Rs. 2 Lakh Crore credit through Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE)

<sup>11</sup> 2021, RBI. “[Annual Report 2021-22](#)”. Annex II, Chronology of Major Policy Announcements to Mitigate the Impact of Covid-19”.

- d) Till May'22, repo rate was kept at the 4.0% levels with the view that an accommodating stance was necessary to revive growth. However, due to pressure of inflation the rate has been since moved up thrice to 5.4% in August 2022
- e) Special refinance facility was provided to NABARD, SIDBI and NHB to the tune of Rs 50,000 Crore to meet sectoral demands
- f) Small Finance Banks (SFBs) were allowed to lend to NBFC-MFIs under priority sector
- g) TLTRO scheme was extended till December 2021
- h) Credit Guarantee Scheme for MFIs in 2021-22
- i) Restructuring plan for loans impacted due to the pandemic

It can be noticed that financial sector was lesser impacted and has grown out of the impact fairly quickly. Recent quarter has seen a marked uptick in credit creation which augurs well for industries. This essentially means more job creation and vibrancy in the overall economic scenario.

### 3.2 Key performance indicators - gradually normalizing

Microfinance in India is based on high touch, doorstep delivery of services model. Hence, it is understandable that any disruption in mobility will have negative impact of the momentum of industry growth. Impact of Covid related restrictions clearly exhibited this relationship of mobility to performance of the industry. Data on microfinance portfolio across all regulated entities operating in the microfinance space and google mobility data in **Figure 3.9** from early 2020 shows this correlation.

**Figure 3.9: Trend in retail mobility V/s microfinance GLP growth**



Source: Economic Survey 21-22, Ministry of Finance; Equifax. Data on Google mobility, left axis denotes % change in mobility against February 2020 baseline levels, right axis denotes microfinance portfolio outstanding in Rs lakh crore.

The mobility data shows how visitors to (or time spent in) categorized places change compared to the baseline days. A baseline day represents a normal value for that day of the week. The baseline day is the median value from the 5-week period Jan 3 – Feb 6, 2020.

As visible, microfinance operations suffered due to lockdown announced in response to first wave of Covid resulting in a drop of 1.75% in GLP. Thereafter, due to moratorium announced by RBI and low disbursement in the ensuing two quarters, the portfolio remained almost stagnant till Dec'20. With easing of lockdown, disbursements started picking up and correspondingly there was an uptick in the portfolio. A second lockdown impacted the operation again in the Q1 of 2021 but till then MFIs had devised their strategies to handle such situation. Hence, while in the first lockdown portfolio remained stagnant for almost three quarters, the second lockdown caused slowing down of portfolio creation for just one quarter. Progressive numbers on microfinance portfolio growth indicate that the institutions are

back in the growth mode and portfolio growth seems to be healthy.

The analysis of operational and financial data of NBFC-MFIs (and for the universe wherever data was available), in the sub-sections below, shows impact of pandemic which was at its peak in later half of 2020 and first half of 2021 is now ebbing.

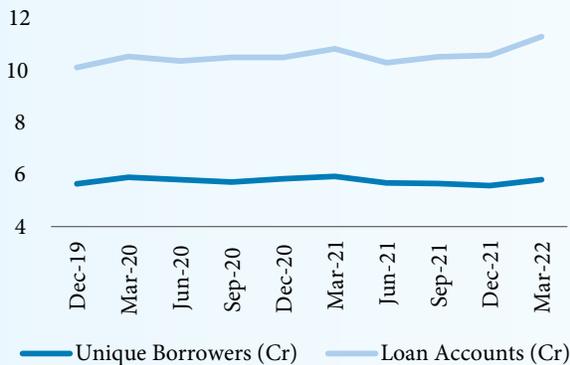
### 3.2.1 Outreach

[Analysis presented in the sub-sections below is for the universe/all REs except Section 3.2.3 which is specific to NBFC-MFIs]

As on March 31, 2022, REs serve 5.8 Cr unique borrower families. This outreach has been achieved through 11.31 crore loan accounts with GLP of Rs 2,85,441 Cr. In addition to this, there is an SHG portfolio of Rs 1,16,282 Cr taking the overall universe portfolio to Rs 4,01,723 Crores.

A look at the number of outstanding accounts and unique borrowers (Figure 3.10) shows a pattern expected during the Covid era. Both number of accounts and unique borrowers dipped slightly during first and second wave. Understandably, as operations picked up, the numbers also improved.

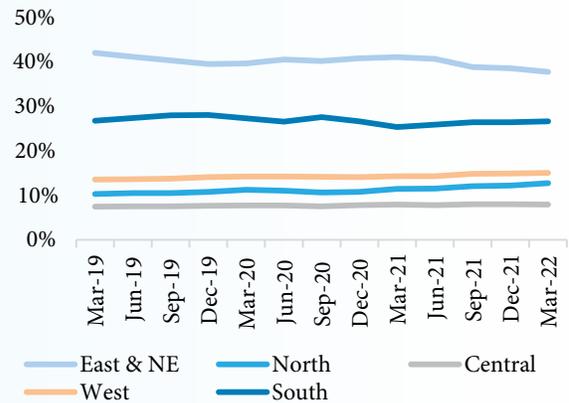
**Figure 3.10: No of accounts and unique borrowers (Cr)**



Source: Equifax

Trend of microfinance portfolio across various regions reveals that the share of East and Northeast has been coming down consistently and the share of North has been increasing as shown in Figure 3.11. A further drill-down of portfolio growth in East and Northeast on a

**Figure 3.11: Regional distribution of GLP (Cr)**



Source: Equifax

QoQ basis reveals the significant decrease in new portfolio creation in the region. This steep fall can be attributed to issues in microfinance operations in the state of Assam shown in Figure 3.12.

**Figure 3.12: QoQ change in GLP - East and Northeast (%)**



Source: Equifax

**Table 3.1** below shows the % growth in portfolio of microfinance universe in states of East and Northeast region. All Northeast states (except Arunachal Pradesh) and West Bengal have registered a degrowth. However, Bihar and Jharkhand are still going strong.

**Table 3.1: Portfolio growth (YoY) in East and North-East states**

State	Mar-20	Mar-21	Mar-22
Bihar	46.59%	11.03%	22.13%
West Bengal	17.35%	23.05%	-13.11%
Odisha	16.58%	11.66%	13.34%
Assam	-3.79%	7.46%	-21.64%
Jharkhand	41.74%	23.44%	22.52%
Tripura	9.31%	18.74%	-20.13%
Manipur	67.00%	19.30%	-17.90%
Sikkim	18.99%	15.16%	-29.60%
Meghalaya	6.45%	4.09%	-32.65%
Mizoram	55.30%	-0.55%	-11.67%
Nagaland	18.98%	22.53%	-0.72%
Arunachal	42.86%	11.87%	15.63%

Source: Equifax

Some interesting green shoots of portfolio growth have been observed in Himachal Pradesh where the portfolio has more than tripled from Rs. 40 Cr to almost Rs. 140 Cr. However, these are very early days of operation intensification in Himachal Pradesh. The percentage growth looks large due to base effect. One needs to observe the state portfolio for another financial year (4 quarters) to assess the trends.

### 3.2.2 Products – ticket size, tenure, frequency

The microfinance product line of REs continues to be monoline. While the new regulation promises to encourage product innovation by removing caps and qualifying assets conditions on loan purpose, tenure, loan size by credit cycle of borrowers etc. it is to be seen how institutions

respond. It seems that the new QA norm of 75% of total assets would still pose a challenge to NBFC-MFIs to innovate, for reasons discussed in Section 2.3.6.

At present, the microfinance product mix is basically decided by three parameters - ticket size, repayment frequency and tenor, as analysed in the sub-sections below.

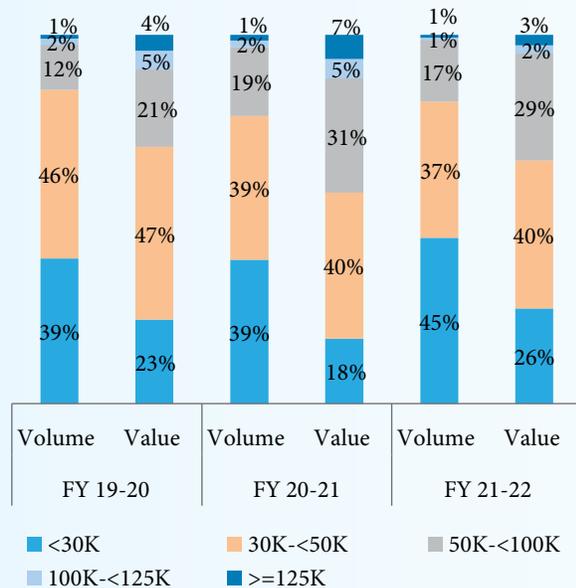
#### Ticket size

In microfinance, cost is a neutral factor for delivering loans irrespective of the size since MFIs provide doorstep services. From a cost efficiency point of view, it therefore makes better economic sense to provide higher ticket loans. With the maturing of borrowers who have experienced microfinance for multiple cycles and

considering inflation, the demand for bigger loans has increased over the years. The MFIs are also comfortable with lending bigger loans to clients in the higher cycles who have demonstrated good credit history. As a result, the loan size has increased by the CAGR of 6% since FY 19-20 from Rs 34,467 to Rs 39,829 in FY 20-21.

Figure 3.13 shows the distribution of loans in various buckets in the last three years in terms of volume (number) and value (amount) of loans disbursed. It can be seen that a trend of higher ticket size loans emerged during FY 20-21 during which loans >30K were 82% in value in comparison to 77% >30K loans in FY 19-20.

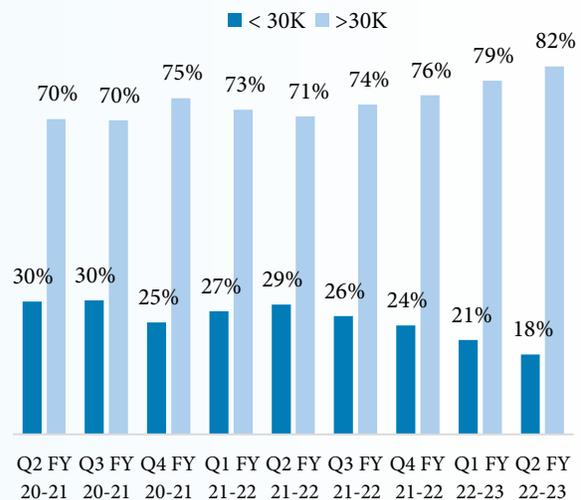
Figure 3.13: Ticket size



Source: Equifax

While the trend seems to have reversed in FY 21-22 with about 74% of the loans disbursed in the >30K bracket, a closer look on quarterly disbursements shows a clear tilt towards higher ticket loans as shown in Figure 3.14.

Figure 3.14: QoQ disb. ticket size (%)

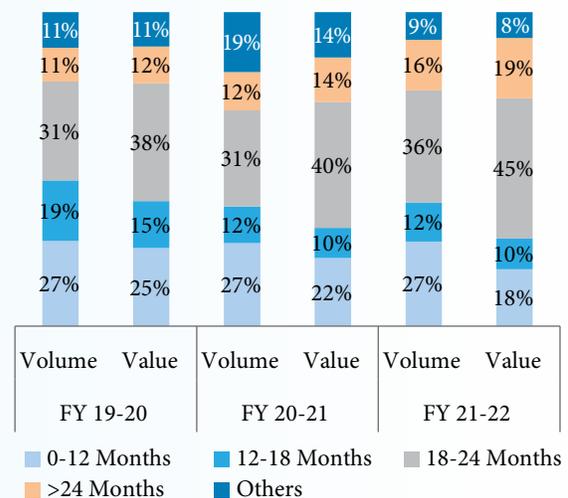


Source: Equifax, Data for Q2 FY 22-23 up to Aug'22

### Tenure

The different tenures of the loans disbursed in the last three years are depicted in Figure 3.15. So far, the loan tenure was based on the loan size as directed by RBI in its guidelines for NBFC-MFI, which specify that tenure of the loan cannot be less than 24 months for loan amount in excess of Rs 30,000. As such most of the loans have a tenure of more than 18 months. Going ahead, as per the new guidelines the REs will be allowed to fix tenure basis borrower's FOIR.

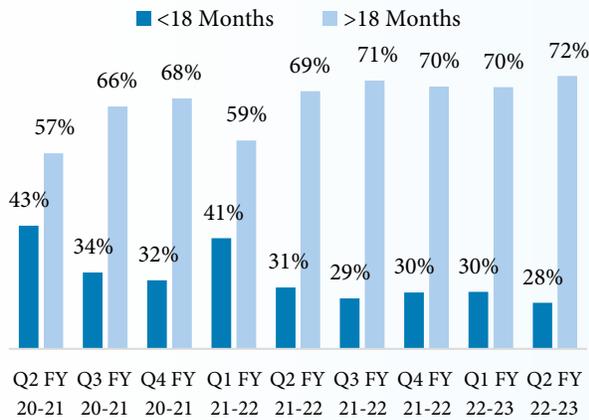
Figure 3.15: Loan tenure



Source: Equifax, Data for Q2 FY 22-23 up to Aug'22

Analysis of QoQ disbursements as shown in **Figure 3.16** indicate that proportion of higher tenure loans are increasing, which relates well with the above finding that ticket sizes are also progressively increasing.

**Figure 3.16: QoQ disb. loan tenure (%)**

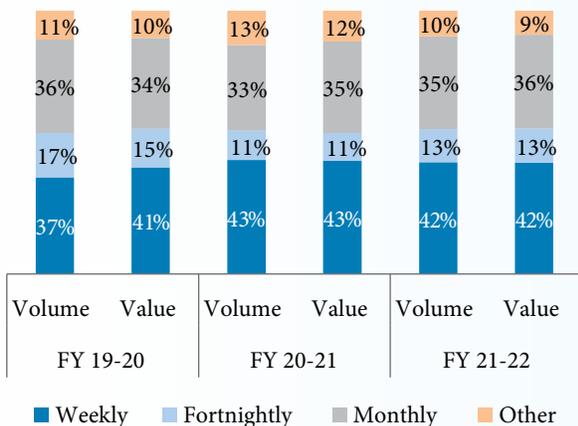


Source: Equifax, Data for Q2 FY 22-23 up to Aug'22

**Frequency**

The product mix for loans disbursed over the last three years by loan repayment frequency, is analysed in **Figure 3.17**. It shows that majority of micro-credit products are weekly (~42%) followed by monthly (35%) and fortnightly (13%) payments. There is no significant change in the distribution of repayment frequency of the products across weekly, fortnightly, monthly.

**Figure 3.17: Loan frequency**



Source: Equifax

**3.2.3 Financial strength**

**“The microfinance sector with a long track record of serving low-income households** has endured many odds including Covid-19. Being tagged under essential services during the pandemic, it has been at the forefront of driving the financial inclusion agenda. In the last two financial years, the sector has disbursed over Rs 4.2 Lakh Crore feeding into the investment multiplier cycle and being one of the prominent sources of capital creation. A microfinance model is an economic tool that has focused on customer well-being being intertwined with community development. It continues to strengthen the social fabric by creating meaningful impact and scale.”

**Udaya Kumar Hebbar**  
MD & CEO, CreditAccess Grameen Limited

**Borrowings and Equity (NBFC-MFIs)**

Data collected from MFIN member NBFC-MFIs reveals a continued growth in the Equity position. The total equity for 56 MFIs rose by 15.2% from Rs 18,587 Cr as on March 31, 2021 to Rs 21,419 Cr as on March 31, 2022. Despite difficult circumstances of second wave of COVID and despite perceived threat of high delinquencies, this growth shows the confidence investors have reposed and the opportunities of growth they see in the India microfinance sector.

As shown in the **Figure 3.18** the Debt-to-Equity ratio has increased to 3.6 after being consistently in the 3.3 to 3.4 range for last few years. In a difficult year the members were able to mobilize funds and attain better leverage. Share capital is 16% of the total equity with reserve and surplus accounting for the remaining part. A snapshot of the equity deals during the year is shown in **Box 3.1**.

As a source of funds, the total equity forms about 26% of the total on balance sheet portfolio with remaining 74% comes from borrowings. The percentage however varies widely between

different sizes of institutions. For Small MFIs, equity comprises almost 47% of their balance sheet portfolio. As on 31 March 2022, 58% of the total equity of sector is domestic in nature.

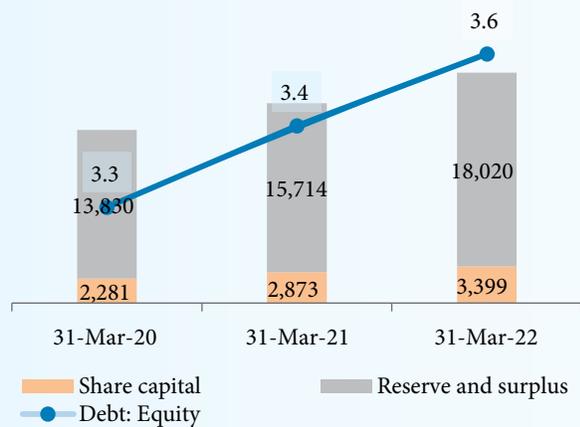
**Box 3.1: Equity deals during FY 2021-22**

During FY 21-22, 21 Members of MFIN reported fresh equity infusion worth Rs 1,314 Cr. Of these nearly 58% was in convertible preference share and remaining 42% was in equity share. Some major deals which were closed in the year 2021-22 are as follows:

- Institutional investors contributed 63% of the total new invested equity followed by holding company at 35%. Promoter and individuals contributed 0.6% and 0.5% share respectively.
- A total of 17 different institutional investors were noted - Svantra Holdings Pvt Ltd, Arum Holding Limited, DEG-Deutsche Investitions-und Entwicklungsgesellschaft mbH, IIFL Finance Limited, ESF Holdings II (Encourage Capital), Accion Gateway Fund LLC, GOJO & COMPANY INC, Oiko Credit
- 4 holding companies invested in their NBFC MFIs Ambit Operations & Management Services Pvt Ltd, IIFL Finance, IIFL Home Finance, Inditrade Fincorp Limited and Svantra Holding Pvt Ltd

Source: Data reported by Members to MFIN as part of Micrometer

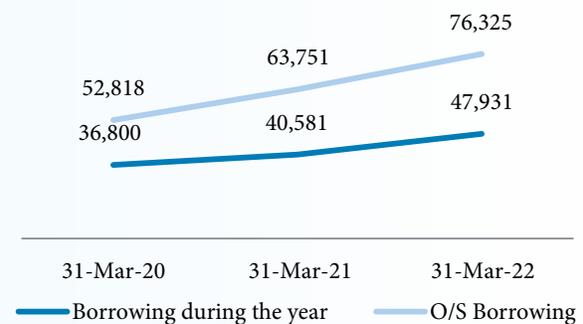
**Figure 3.18: Equity positions (Rs Cr) and leverage**



Source: MFIN Micrometer

Total borrowing outstanding of the MFIN member MFIs stood at Rs 76,325 Cr as on March 31, 2022 which is a growth of 19.7% vis-à-vis last year end as shown in Figure 3.19.

**Figure 3.19: Borrowings (Rs Cr)**

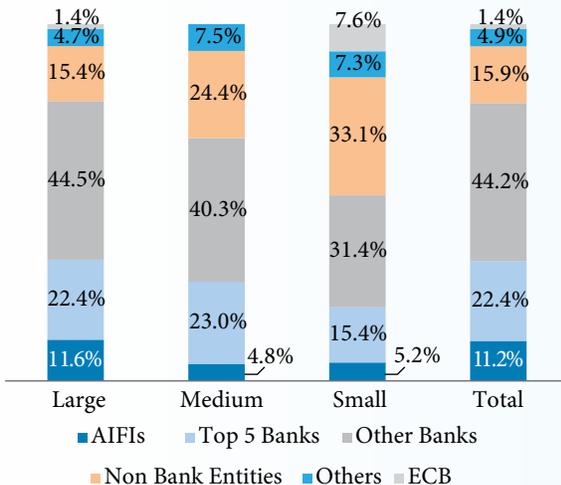


Source: MFIN Micrometer

Analysis of sources of borrowing received during the year in terms of institutions reveals that Banks have remained the largest source of borrowing for the sector. Banks other than top 5 contributed 44.2% while Top 5 banks contributed another 22.4%. Non-bank entities made 15.9% share while AIFIs made 11.2% share of the pie. Other sources and ECB contributed the remaining 4.9% and 1.4% share respectively. Reliance of small and medium entities on non-banking entities can be seen from the **Figure 3.20**. Large entities continued to receive higher funding from banks which come at a lower rate of interest as well.

Break-up of borrowing in terms of instrument used shows that 76.8% borrowing is in the form of term loans followed by 14.6% as debentures, 5.8% as sub-debt, 2.4% as other sources and 0.3% as commercial papers. Sub-debt remains relatively more popular in small MFIs and debentures are more accessible to large MFIs.

**Figure 3.20: Break-up of Borrowings received during FY 2021-22**



Source: MFIN Micrometer

Several MFIs also greatly benefited from the Credit Guarantee Scheme for MFIs (CGSMFI) which was launched by Department of Financial Services (DFS), GOI on 15<sup>th</sup> July 2021 to provide guarantee coverage to eligible lending institutions for the funding provided by them to NBFC-MF or MFIs for on-lending to eligible small borrowers in the context of Covid-19 pandemic. The scheme was managed and operated by National Credit Guarantee Trustee company Limited (NCGTC), which is a wholly owned trustee company of GOI.

The idea on a credit guarantee on term loans to MFIs geminated in an internal discussion of MFIN's Covid Task Force as a solution to the severe liquidity stress which the MFIs were facing, particularly the small and medium sized MFIs. This seemed the most appropriate solution since despite measures by RBI to infuse liquidity through the Special Liquidity Assistance (SLA) schemes of NABARD and SIDBI, the funds were not reaching the smaller MFIs. The idea was discussed with DFS which agreed to it and designed and launched the scheme. **Box 3.2** provides the coverage under the scheme and more details are provided in Section 4.2.2 of this report.

### Box 3.2: Coverage under CGSMFI

As per data reported to MFIN by its member NBFC-MFIs, 38 of them received funding under the scheme to the tune of Rs 7,200 Cr and 99% of that were on-lent to around 17.75 Lk microfinance borrowers.

### Financial ratios (NBFC-MFIs)

A comparison of various financial ratios based on self-reported data from 32 MFIN Member NBFC-MFIs are shown in **Table 3.2**. These include 9 small MFIs that contributed 0.5%, 7 medium MFIs with 2.4% contribution and 16

large MFIs with 97.1% contribution of the total GLP of all MFIs that reported data as on 31st Mar'22. The institutional performance is to a large extent dependent on credit discipline of the clients, which got disrupted during the pandemic due to loss of their livelihoods. This can be seen from the evident dip in FY 20-21 in ratios related to profitability (RoA, ROE, OSS), & income

(yield, other income ratio), while increase in the cost per borrower ratio and increase in the Gross and Net NPAs in comparison to the ratios in the pre-pandemic FY 19-20. However, FY 21-22 shows clear signs of improvement of these ratios in comparison to FY 20-21 indicating that MFIs are on the path towards revival from the Covid shock.

**Table 3.2: Key financial ratios**

Parameter	FY 19-20	FY 20-21	FY 21-22
<b>Profitability</b>			
RoA	3.20%	0.61%	1.15%
RoE	14.13%	2.54%	5.18%
OSS	127.70%	104.69%	109.60%
<b>Income</b>			
Yield	22.25%	21.00%	19.79%
Other income	2.51%	2.44%	3.08%
<b>Portfolio quality</b>			
Gross NPA	2.03%	5.18%	5.62%
Net NPA	0.46%	1.91%	2.05%
<b>Liquidity</b>			
LCR	194.29%	394.31%	394.13%
<b>Cost efficiency</b>			
PER	4.23%	3.90%	4.28%
OER	6.13%	5.55%	6.30%
FCR	9.62%	9.42%	8.80%
Cost/Borrower, Rs	2,176	2,299	2,652
Write-off ratio	1.56%	2.03%	3.09%

*Note: All parameters are depicted by weighted average ratios*

**Definitions:**

Cost per borrower:	Operating Expense/ Number of Active Borrowers
Financial Cost Ratio (FCR):	Total funding expenses/ Average On-balance sheet portfolio
Gross NPA (GNPA):	Gross Non-Performing Assets/ On Balance Sheet Portfolio
Liquidity Coverage Ratio (LCR):	Stock of high quality liquid asset /Total net cash flows over the next 30 calendar days
Net NPA (NNPA):	(Gross NPA - Loan Loss Reserve) / (On Balance Sheet Portfolio – Loan Loss Reserve)
Operating Expense Ratio (OER):	Total Operating Expenses / Average On-balance sheet portfolio
Operational Self-Sufficiency (OSS):	Financial Revenue less grants / (Financial Expense + Impairment Losses on Loans + Operating Expense + Tax Expense)
Other income to total income ratio:	Total other income / Total income
Personnel Expense Ratio (PER):	Personnel expenses / Average Total GLP
Return on Assets (RoA):	Profit After Tax / Average Total Assets
Return on Equity (RoE):	Profit After Tax / Average Total Equity
Yield on portfolio (Yield):	Interest income on loan portfolio / Average On-balance sheet portfolio
Write-off ratio:	Write-off / Average Total GLP

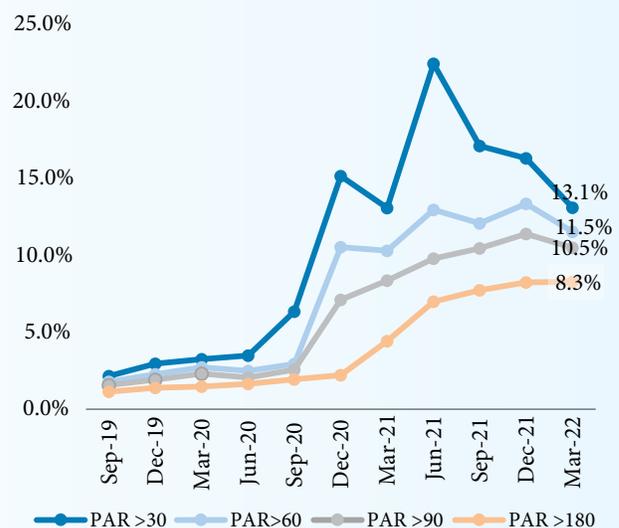
The MFIs also seemed to have learned from the severe liquidity stress faced during the initial phase of the pandemic and have since then ensured that sufficient liquidity is maintained to take care of all repayment obligations of corporate lenders and for loan disbursements to their borrowers. The weighted average LCR of the MFIs has doubled as on 31st Mar'21 and was maintained at the same level as on 31st Mar'22 – these ratios are even much higher than the RBI prescribed limits for NBFC-MFIs of asset size greater than Rs 5,000 Cr.

Yield on portfolio, which reflects the interest income from the portfolio has continually decreased mainly because of the pricing cap on NBFC-MFIs until the end of FY 21-22, impact of reducing base rates of Top 5 banks during the pandemic period and the funds received by MFIs under the CGS scheme of DFS which was sourced at lower rates and had to be on-lent to borrowers at 2% less than the RBI applicable rates for the MFIs. This is also the reason for the significant

improvement of FCR in FY 21-22 in comparison to earlier years. However, it is important to note that as per the new guidelines which became applicable from April 1, 2022 the pricing has been deregulated. Hence, yield on portfolio which was getting suppressed may see some easing moving forward.

**Portfolio quality (Universe)**

Delinquency as measured by portfolio at risk (PAR) increased sharply as a result of pandemic and due to the unsecured nature of microfinance loans and vulnerability of microfinance borrowers from prolonged lack of income opportunities, particularly during the initial lockdown. The PAR trend analysis of the universe (all lenders including Banks, NBFC-MFIs, SFBs, NBFCs and other non-profit entities) is shown in **Figure 3.21**. In pre-covid times the industry typically had PAR>30 of around 1-2% and the effect of pandemic started reflecting in Dec'20 after the end of moratorium period in Aug'20. The peak arrived in Jun'21 during the most devastating second phase of the pandemic.

**Figure 3.21: PAR trend (microfinance universe)**

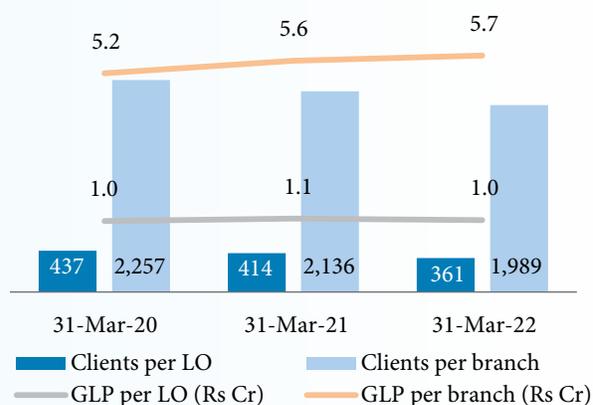
Source: Equifax

Towards the end of moratorium period, RBI introduced resolution framework for Covid-19 related stress in Aug'20 and then for the second time in May'21. However, this led to confusion in reporting the loans to credit bureaus. As such, the tagging of restructured loans to the credit bureaus was delayed due to the Hon'ble Supreme Court judgement on moratorium and NPA classification and consequent delay in credit bureau changes to reflect restructured loans. All this has also affected a fair assessment of portfolio quality during the first pandemic year. However, with the competition of invocation of loans under resolution by 30th Sep'21 and implementation within 90 days from the date of invocation, the PAR trend seems to be reflecting a truer picture now, which indicates that the portfolio quality is improving as reflected from PAR>30 of 13.1% as on 31st Mar'22 in comparison to 15.1% in the first peak on 31st Dec'20 and 22.4% in the second peak on Jun'21. The All India trend is further skewed due to high PAR>30 in few Top 10 states like Assam (44.6%), West Bengal (22.9%), Maharashtra (14.6%) and Kerala (14.2%).

### 3.2.4 Operational efficiency (NBFC-MFIs)

Operational efficiency is generally measured using staff productivity ratios. Efficiency is also linked to economies of scale, so larger MFIs have better efficiency ratios. A comparison of staff productivity ratios over the last three years as shown in **Figure 3.22** indicate that client per loan officer (LO) and client per branch ratios have decreased consistently. This is mainly due to lower disbursements and higher engagement with clients during Covid and delinquency management which required more involvement of loan officers as compared to normal course of operations. In contrast, due to industry gradually moving to higher ticket size loans, GLP per branch and GLP per loan officer ratios have increased over three years.

**Figure 3.22: Staff productivity ratios**



Source: MFIN Micrometer

Cost efficiency analysed by OER, FCR, cost per borrower has been analysed above. In terms of repayment collection efficiency as shown in **Figure 3.23**, the NBFC-MFIs showed a significant dip during the first year of the pandemic but in the second year recoded major improvement, though still not at the pre-pandemic level.

It is to be noted that digital collections have also played an important role in revival of collections. While 98% of disbursements are done through cashless modes, the digital collection increased from around 5% in the pre-pandemic phase to around 13% in Q4 FY 21-22 (MFIN Micrometer).

**Figure 3.23: Aggregate repayment rate**



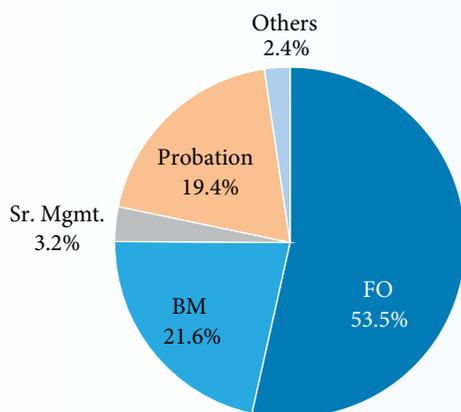
Source: MFIN members self-reported data

### 3.2.5 Human resource trends (NBFC-MFIs)

Employees, especially the loan/field officers are the backbone of microfinance operations. Though role of technology in operations is increasing gradually, the responsibility of the loan officers in mobilisation of clients, their training and awareness generations, supporting them in applying for loans and in repayment collections, will not diminish in the near future. In fact, the new regulations have put an added responsibility of assessment for client’s household income for loan underwriting.

As on March 31, 2022, 1,42,811 staff were employed with MFIN members. Around 94.7% of the staff are based at the branch level while the remaining are at MFI Head Offices. The proportionate distribution of staff across various levels is shown in **Figure 3.24**, which indicates that branch level staff (field officers + branch managers) constitute around 75.1% of the work force, 19.4% of the staff are in probation phase, the senior management comprise 3.2% and support/other staff constitute around 2.4%.

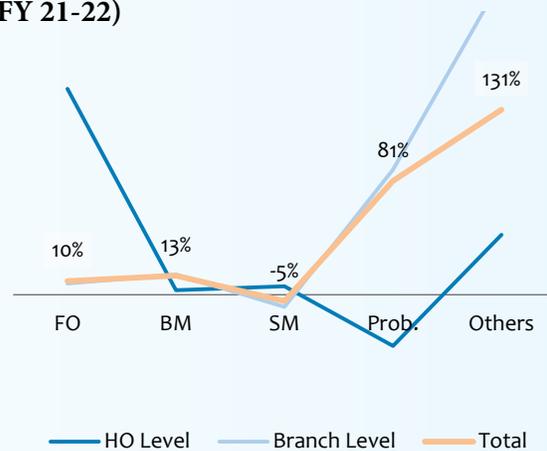
**Figure 3.24: Staff distribution**



Source: MFIN Micrometer, Q4 FY 2021-22

Though the sector faced higher attrition rate during the Covid phase, to maintain sufficient human resource for higher-than-normal customer engagement and make sure required HR was available, MFIs had to recruit and on-board new staff quickly. Therefore, as per data available MFIs have seen a major uptick in the recruitment of probationers during FY 2021-22 (Apr’20 to Mar’21 period), as shown in **Figure 3.25**.

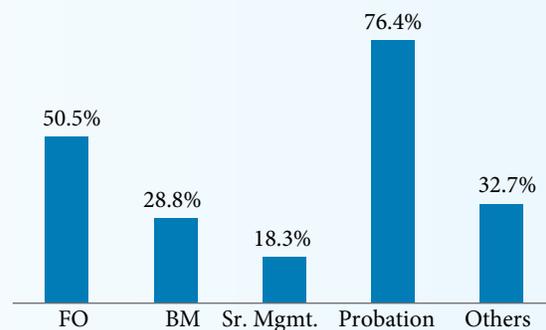
**Figure 3.25: Staff growth by position (FY 21-22)**



Source: MFIN Micrometer, Q4 FY 2021-22

Overall, the staff base increased by 20.4% in comparison to FY 2020-21 – one of the few sectors which witnessed this trend at a time when several people lost their jobs. The overall attrition rate during the period (31 March 2021 to 31 March 2022) was at 48.7%. The position wise attrition rate is shown in **Figure 3.26**.

**Figure 3.26: Attrition rate by position**

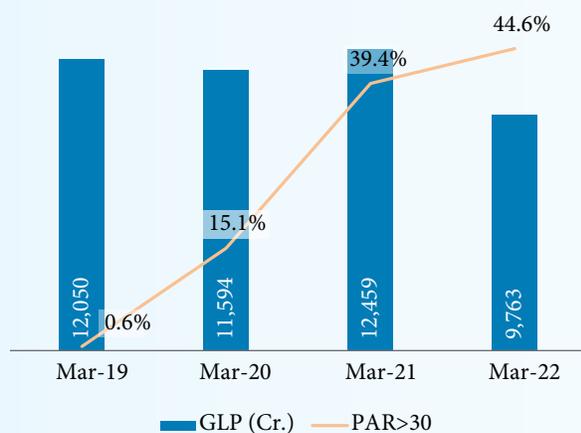


Source: MFIN Micrometer, Q4 FY 2021-22

### 3.3 Update on Assam situation

Until August 2019, the Assam microfinance portfolio was one of the best. It had seen a substantial growth within a decade from just over Rs 1,000 Cr in FY 2011-12 to cross Rs 12,000 Cr in FY 2020-21 – making Assam the sixth largest portfolio state in India. Assam was also the 3rd best state in portfolio quality with PAR>30 of 0.61% until March 2019. **Figure 3.27** provides the status of microfinance portfolio growth & its performance from March 2019 to March 2022.

**Figure 3.27: Portfolio and PAR>30 days trend in Assam since 2019**



Source: Equifax

Since August 2019, the sector has been in a crisis. Initially, due to floods, a few local associations voiced severe concerns against the alleged forceful collection practices of MFIs from the flood-affected customers. Later the situation worsened by the two waves of the Corona Pandemic in the year 2020-21 & 2021-22.

Electoral promises of microfinance loan waiver during the 2021 state assembly election further exacerbated the repayment collections, with PAR 30 reaching 39.43% in March 2021.

MFIN brought all lenders together and engaged with the highest level of state stakeholders, including state Government, in constructive

dialogue. It emphasized the significance of credit discipline and the detrimental effects of loan waiver and nudged the Government to move its focus from 'waiver' to 'relief'.

The Government announced the Assam Micro Finance Incentive & Relief Scheme (AMFIRS) in June 2021 with a budgetary allocation of Rs 7,500 Cr. The Scheme offers incentives and relief to customers under three categories based on their repayment status. This happened after closely reviewing the data over a series of deliberation with the lending institutions of the state regarding the importance of microfinance operations to carry forward the state & national agenda of Financial Inclusion.

The key features of this Scheme are:

With a cut-off date of March 31, 2021, to decide eligibility and amount of benefit, relief under the Scheme shall be extended to all borrowers, with loans from up to 3 lenders and for loans outstanding amount of up to Rs 1.25 lakhs, under the following categories:

**Category 1:** Borrowers who have been repaying regularly with zero Days Past Due (DPD) will be given a onetime incentive to the extent of their outstanding balance, subject to a cap of Rs.25000/-. This is proposed as an incentive to continue maintaining good credit discipline.

**Category 2:** Borrowers whose payments are overdue by 1-89 days; that is, for accounts which are overdue but not NPA, the State Government will pay the overdue amounts. Borrowers who resume their on-time repayments may receive a onetime incentive payment of Rs.25000/- or equal to the outstanding balance, whichever is lower, from the Government.

**Category 3:** Borrowers who are stressed, destitute and whose accounts have become NPA will need to apply through a format verified & certified by the lender. State Government will consider

providing partial or complete relief based on a detailed evaluation.

An MOU for joint implementation of AMFIRS 2021 was signed between the State Government and 37 lenders in August 2021 at Guwahati. The Steering Committee of 5 members appointed by the lenders assigned MFIN to play the role of Nodal Agency for facilitating dialogues between the state-level stakeholders and lending agencies.

The Government of Assam rolled out the distribution of 'cheques of incentive' to beneficiaries eligible under Category 1 of AMFIRS in a phased manner. MFIN proactively facilitated coordination between credit bureau and lenders for submission of data of Category 1 eligible borrowers to the Government basis which incentive payments were offered.

The State Government initiated the cheque distribution process for Category-1 customers first in 9 districts in October 2021. In November 2021, the Government issued an amendment notice to change the cut-off date from March 31, 2021, to November 15, 2021, and then to October 31, 2021. Subsequently, 2nd phase took place in 6 districts in December 2021, followed by 3rd phase in January 2022 in 11 districts, 4 districts in March 2022 and 4 districts in April 2022.

MFIN continues to play a supportive role along with the lenders' Steering Committee for coordinating with the State Government and lenders for smooth implementation of the Scheme.

Discussion on Categories 2 & 3 got delayed as the state has been reeling from flood conditions in 29 out of 34 districts since May 2022. The discussions restarted in Sep'22 and MFIs have now been advised to submit data related to Category 2 to the Government of Assam.

### 3.4 Risks

The Covid pandemic posed risks of unheard proportions as it directly impacted mobility and earning ability of low income households (who are primary the clients of MFIs) and were unable to repay their loans on time. The mass delinquencies combined with other factors like moratorium to clients, selective back-to-back moratorium from lenders to the MFIs led to increased liquidity stress which threatened their existence. The microfinance sector has been able to successfully navigate this crisis period with timely support from the Government of India (GOI) and RBI, as discussed in Sections 3.1 & 3.2 of this chapter.

The indicators (portfolio quality) related to credit risks have shown tremendous improvement as analysed in Section 3.2.3. Though PAR>30 numbers are still high in comparison to historical pre-pandemic numbers, field insights on the customer activation levels (clients attending meetings and showing intent to pay even if it is part instalment) indicates that the situation is better than it appears.

The new regulatory guidelines on HH income assessment and max 50% of FOIR has in a way vastly mitigated the credit risks due to high indebtedness and as a result protect the customers. This, in combination with deregulation of pricing and LCR guidelines<sup>12</sup> for large MFIs will ensure they are able to manage their liquidity risk better. Among the emerging risks, climate change and proliferation of unauthorized digital lending applications pose a major challenge to the REs in their efforts to manage and mitigate credit risk. To address the risks due to climate change, MFIN has been working on a natural catastrophe insurance product which is described in detail in Section 4.1.4 of this report.

<sup>12</sup> NBFC-MFIs with total assets more than Rs 5,000 Cr have to maintain 60% by December 01, 2022 and 100% by December 01, 2024. LCR is proportion of stock of HQLA to total net cash outflows over the next 30 calendar days.

As far as digital lending apps are concerned, RBI is closely monitoring the developments and has been issuing necessary notifications from time to time to guide banks and NBFCs on the subject. RBI in its [report<sup>13</sup>](#) brought out that the portfolio profile of lending apps is quite similar to microfinance and any incidents impacting customer protection or fair practices or regulatory breach are likely to have spill over effects on the microfinance industry. The RBI has also issued a [press release](#) on December 23, 2020 cautioning against unauthorised Digital Lending Platforms/ Mobile Apps. GOI has also been taking action against certain apps with link to foreign shores. RBI has also released its [guidelines on digital lending](#) for REs which reiterate that outsourcing arrangements entered by REs with a Lending Service Provider (LSP)/ Digital Lending App (DLA) does not diminish the REs' obligations and they shall continue to conform to the extant guidelines on outsourcing. The REs are advised to ensure that the LSPs engaged by them and the DLAs (either of the RE or of the LSP engaged by the RE) comply with the guidelines.

On similar lines, MFIN also issued an advisory to its members in Aug'22 stating that "members are advised to exercise due caution and compliance with existing RBI and GOI guidelines before entering into any digital lending tie up.

MFIN monitors geographical concentration risk at district level using two major indicators apart from portfolio quality. These are:

- (i) **Density of Financial Institutions ('000 potential HHs per FI):** This ratio analyses number of potential HHs served per financial institution (FI) in a district. The lower the ratio, the greater the risk implying that multiple FIs are targeting common households leading to unhealthy competition.

The resilience of an institution and of a sector/ industry is directly proportional to its ability to manage risks and mitigate them. It will be wishful to think that risks can be eliminated from businesses as new risks keep emerging. Therefore, risks can only be managed through the iterative process of risk identification, assessment, measurement and monitoring. MFIN as the industry body understands this requirement and uses analytics as a tool for measuring and monitoring credit and geographical concentration risks at the sectoral level. It also has plans to develop an early warning system (EWS) using data analytics.

As on March 31, 2022, 202 FIs were operational in 633 districts in 37 states and union territories. At an all-India level, the density of FIs is 997 which means that for every 997 thousand potential households there is one active FI. **Table 3.3** compares the number of districts in various categories of density of FIs over the last two years. As can be seen, the proportion of districts that have relatively high concentration with one FI per (up to) 6,000 households has marginally increased from 39% in Mar'21 to 42% in Mar'22.

**Table 3.3: Density of FIs**

Category <sup>^</sup> (No. of HHs)	No. of districts	
	31 Mar'21	31 Mar'22
<=3	48	60
>3 to <=6	197	208
>6 to <=9	176	175
>9 to <=12	73	68
>12	139	122
<b>Total</b>	<b>633</b>	<b>633</b>

<sup>^</sup> Note: Depicts no. of 000'HHs for which there is one active FI  
Source: Equifax

<sup>13</sup> 2021, Nov 18. RBI. "Report of the Working Group on Digital Lending including Lending through Online Platforms and Mobile Apps". Section 5, Financial Consumer Protection.

The REs continue to have significant presence in the aspirational districts. As on Mar'22 microfinance operations were active in 103 out of 112 aspirational districts. The contribution to universe GLP is about 13.4% and 17.6% in terms of unique borrowers.

**(ii) Depth of outreach (Unique borrowers to potential HHs):** This ratio points towards saturation level in terms of the proportion of potential borrowers reach by microfinance. For each district, the potential households are assumed to be 70% of the total households (as per Census 2011 and extrapolated to Mar' 22 basis population growth), with the bottom 15% and the top 15% households in terms of economic well-being excluded.

**Table 3.4** shows the number of districts in various saturation level categories. No. of districts with high depth of outreach (>50%) has increased from 23% in Mar'21 to 28% in Mar'22 but at the country level less than 30% of the HHs are reached (also discussed in Section 1.3) indicating good opportunities for FIs to expand outreach.

**Table 3.4: Depth of outreach**

Potential HHs reached	No. of districts	
	31 Mar'21	31 Mar'22
<10%	172	149
10-25%	113	110
25-35%	85	73
35-50%	119	125
>50%	144	176
<b>Total</b>	<b>633</b>	<b>633</b>

Source: Equifax

When analysed at the state level, the Top 10 states<sup>14</sup>, contributed 82.4% of total GLP and total accounts as on March 31, 2022. Analysis at district level shows that the operations are concentrated in the Top 300 districts, which contribute to almost 88.1% of the universe GLP. **Table 3.5** depicts the district level geographical concentration of microfinance operations.

From a geographical risk management perspective, the analysis provides a good insight that there are around 333 districts where depth of outreach is less than the national average and much less than the Top 300 districts, where the FIs can look for expanding the operations. It is apparent that many of such districts may be in remote locations with limited infrastructure facilities and high cost of operations, because of which FIs have not ventured there. However, the new regulations now provide space for pricing for risk and FIs should look at diversifying their geographical concentration.

<sup>14</sup> Tamil Nadu, Bihar, West Bengal, Karnataka, Uttar Pradesh, Maharashtra, Madhya Pradesh, Odisha, Rajasthan and Kerala

**Table 3.5: District level concentration of microfinance operations<sup>15</sup>**

Districts	GLP (Rs Cr)	GLP (% of Univ.)	No. of Accounts (Cr)	Accounts (% of Univ.)	Depth of Outreach
Top 100	1,43,231	50.2%	5.49	48.5%	56.0%
Top 200	2,10,121	73.6%	8.20	72.5%	51.5%
Top 300	2,51,499	88.1%	9.89	87.5%	48.7%
Remaining districts (333)	33,942	11.9%	1.42	12.5%	14.8%
Aspirational districts (103)	38,497	13.5%	1.56	13.8%	39.8%
Top 10 States	2,35,160	82.4%	9.32	82.4%	43.3%
Universe	2,85,441		11.31		28.8%

### 3.5 Learnings from Covid

Five overarching lessons can be taken from the unprecedented crisis triggered by COVID in the Indian microfinance sector:

- Such a severe shock cannot be met by Institutions on their own and requires both monetary and fiscal support to keep the machine running and avoid systemic instability. This was done swiftly and decisively by the RBI and Govt of India, working closely with MFIN and microfinance lenders.
- Customers demonstrated their tremendous ability to adapt to new conditions including lockdowns, digital payments, and new approaches to customer service from lenders. However, lenders needed to invest sustained efforts in capacity building for their customers and employees to help them adjust to the new normal.
- Customers maintained their resilience to economic shocks, especially for the majority of microfinance clients that are engaged in essential economic activities. Microfinance clients are typically involved in producing goods and services that are integral to community life like selling vegetables, groceries, or other core household consumption items that are less affected by macro-economic shocks.
- Customers noted which microfinance providers were reliable and working to support their clients. Customers value this relationship with MFIs that are dependable, client-centric, and providing responsible financial services. During the crisis, customers worked carefully with microfinance providers to avoid triggering an adverse repayment record that would jeopardise their future access to financial services.
- Finally, MFIs and their investors need to be realistic in setting expectations for institutional performance at times of unprecedented crisis. During the COVID pandemic, institutions that were responsive to individual client situations balanced their institutional needs with client realities through repayment delays, extending loan tenures, and approving new loans. Institutions that responded with empathy during the crisis have been rewarded with higher client retention, loyalty, and overall improved recovery post-pandemic.

<sup>15</sup> Data for GLP and customers sourced from Equifax. Depth of outreach is estimated assuming 70% of households are low-income households and hence potential size of the market.

## Chapter-4

# Initiatives for future proofing of microfinance sector

Growth and sustenance of any industry requires concerted efforts not only by the companies involved who are the direct stakeholders but collective sector building efforts as well. The industry associations have the responsibility of carrying out such functions which would be difficult for an individual institution to perform, particularly the start-ups due to capacity constraints. MFIN as the industry body for microfinance has in the past undertaken several such initiatives like development of the credit bureau ecosystem for microfinance in India, promotion of cashless disbursement and repayment collections, development of industry code of conduct, code for responsible lending etc. Several other MFIN initiatives are underway for futureproofing of microfinance sector, as elaborated in this chapter.

### 4.1 Sector level

#### 4.1.1 CGRM - Lending an ear to the customers

##### MFIN CGRM

Customer Grievance Redressal Mechanism (CGRM) allows customers to address and transparently resolve their complaint/s within a

reasonable timeframe. It is especially important for low-income and vulnerable customers, to whom timely and effective recourse processes can have a long-term decisive influence over their trust in their companies. It helps customers voices to be heard, protect their interests, rebuild their relationships and is critical for applying other customer-protection principles like fair interaction, suitability, privacy, and transparency as any deficiencies in these principles can get reported through CGRM.

CGRM has also been recognized by the Reserve Bank of India (RBI) as integral to customer satisfaction and protection and one of the criteria for SRO recognition was that it should have a grievance redressal mechanism for the customers of their member NBFC-MFIs. Accordingly, a grievance mechanism was operationalized in July 2015 through a toll-free number at MFIN.

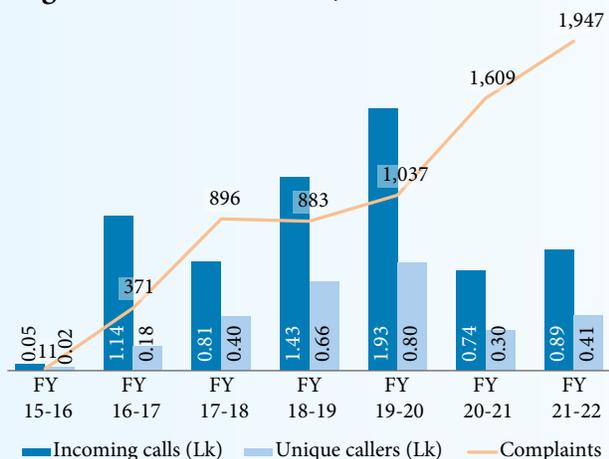
MFIN's CGRM is an independent system of linking the customers of MFIN-member NBFC-MFIs with an easy-no-cost access to the SRO, who seeks support in addressing their grievances. The processing of complaints is done through a CRM software which is custom designed for MFIN. It helps in addressing the complaints in an effective and timely manner. Currently, MFIN

CGRM addresses customer queries/complaints in 12 languages, namely English, Hindi, Odia, Bengali, Marathi, Punjabi, Assamese, Gujarati, Malayalam, Kannada, Telugu, and Tamil.

Usually, MFIN-CGRM registers complaints when the customer is not satisfied with the resolution provided by the NBFC-MFI or is not able to connect with the NBFC-MFI after multiple efforts. The customers can also approach the RBI ombudsman if their complaint is not resolved within 30 days by the NBFC-MFI.

The details of the calls, unique callers and complaints received in MFIN CGRM over the last 6 years is presented in the **Figure 4.1**.

**Figure 4.1: MFIN CGRM, YoY call details**



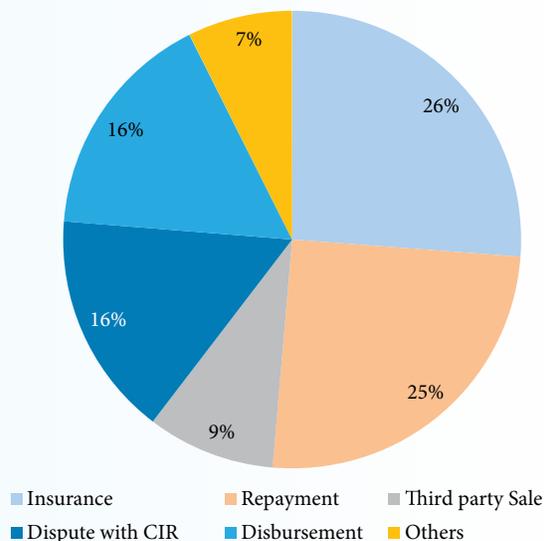
An early assessment of the nature of call which differs widely is necessary for effective and efficient handling and as per the nature of the call/complaint, allocation to a specific category is made. Categorisation helps in assigning priority, assigning complaints to specific NBFC-MFIs, and assigning different turnaround times (TATs) to different type of complaints. To ensure that complaints are resolved within the predefined TATs, it is important to closely monitor the status

of complaints. This helps in ensuring that all complaints are attended and timely escalated.

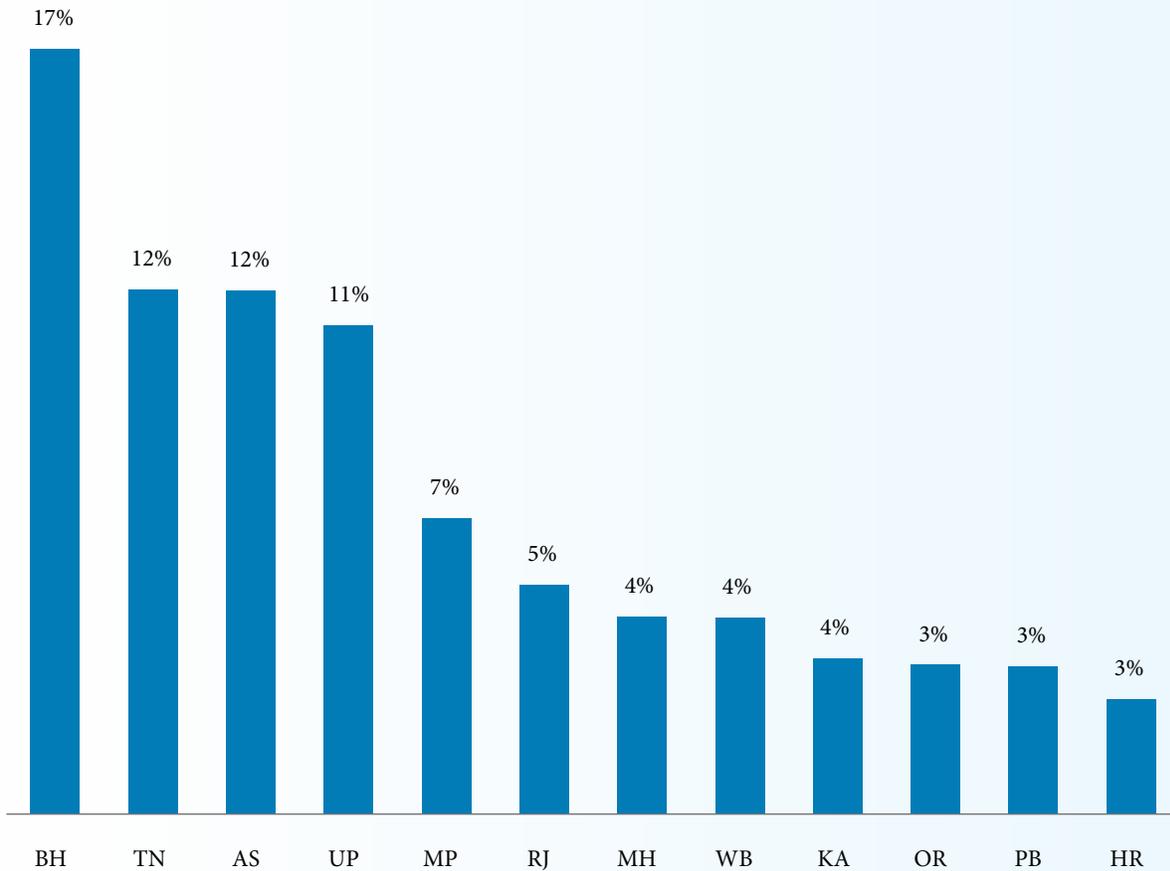
After any complaint has been resolved by the company, customers are approached to understand their feedback and satisfaction with the resolution provided on the complaint. There is a provision to relook into the issue if the customer is not satisfied with the resolution provided. In case customer is still not satisfied, the escalation of the customer complaint to the RBI Ombudsman is facilitated.

MFIN member NBFC-MFIs share the quarterly update on calls/complaints received on their own CGRM with the SRO. An update on CGRM detailing on the calls/complaints in terms of numbers, category, state wise analysis, benchmarking with the customer portfolio, TAT etc is shared by the SRO with its members on a quarterly basis. The details of the complaint categories, state wise distribution of the calls and complaints along with their Turn Around Time (TAT), received in the MFIN CGRM is presented in **Figures 4.2, 4.3 and 4.4**.

**Figure 4.2: Complaint categories (FY 21-22)**

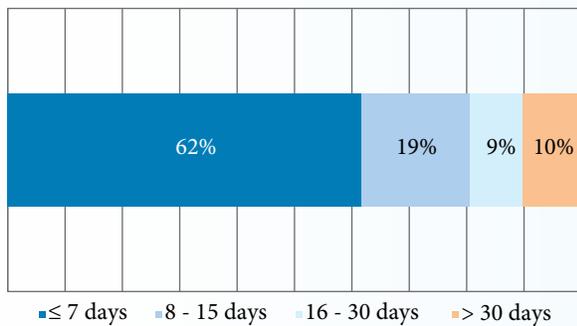


**Figure 4.3: State wise calls (FY 21-22)**



Source: MFIN CGRM

**Figure 4.4: Turn Around Time of complaint resolution (FY 21-22)**



Source: MFIN CGRM

### Capacity Building on CGRM

#### Training Module

A new training module on CGRM was released by the SRO. It is an hour-long video in English, and targets the learning needs of teams directly involved with the CGRM function of the company. The module has 3 sections:

- Introduction: Microcredit, customer protection, CGRM and its importance
- CGRM Framework
- Skills for CGRM employees

### CGRM Workshop:

SRO organized a workshop with the CGRM Heads/officials leading and overseeing the CGRM mechanism of member NBFC-MFIs. The webinar focused on the CGRM processes – increasing customer awareness, tagging of complaints, process map etc. More than 50 participants attended the workshop.

### **Support provided on AMFIRS**

Due to the sharp increase in the number of calls from the customers on Assam Microfinance Incentive and Relief Scheme (AMFIRS), an additional resource was added to handle the large volume of calls. A FAQ to be used for responding to queries from the customers of Assam related to AMFIRS was prepared and shared by the SRO. The details of the customers and their queries which were received in the MFIN Toll free helpline related to AMFIRS were shared with the respective lenders in Assam for providing resolution to their customers. The data was shared with all the lenders, irrespective of their membership with MFIN.

### **Leveraging CGRM**

CGRM is a channel which can not only be used for resolution of individual complaints but can also act as a powerful mechanism to get field level insights/perspective on the emerging issues/challenges.

### Customer Surveys:

Conducting customer surveys through this channel has given an understanding on various issues, which is supported by quantitative data. The direct responses from the customers help in analysing an issue from an overall context. Three

customer surveys were conducted in the last FY through MFIN CGRM on the following themes:

- **Impact of Covid surge:** This survey was conducted in May 2021 to get an early sense of the impact of the second wave of covid since Apr 2021 on customer's incomes, repayments and challenges.
- **Household income, Pricing, debt serviceability and choice:** This survey was conducted to understand customers' thoughts and perspective on their awareness of availing the right credit amount based on their household income, sensitivity to pricing, factors they consider in choosing a credit product and issues in debt serviceability.
- **Views on centre meetings:** In micro-credit segment, the repayment of loan needs to happen at a central designated place. These meetings are referred to as "center meetings" – which comprise one or more JLGs. The micro-credit industry has been emerging and different modes of payments have gradually been adopted by the microfinance lenders, which are not cash driven, hence making center meetings less relevant in terms of repayment. MFIN conducted this survey to understand customers preferences and challenges in attending centre meetings to get a sense of their relevance, going forward.

### Employees complaints:

Examining complaints from current/ex-employees of member organizations and taking up the same with member institutions to obtain adequate responses for resolution/closure has added to the scope of CGRM and helps to understand the employee level challenges/issues within the industry.

### Projects/studies:

A CGRM-specific study in collaboration with an independent partner was initiated to get the recommendations for enhancing its effectiveness and user experience. An individual project on integration of Artificial Intelligence (AI) within CGRM is underway with a technical and a knowledge partner (GIZ and Gramvaani). Three use cases have been identified for this initiative.

- Integration of SMS facility in the MFIN CGRM.
- Automated verification calls to the customers to check their satisfaction on complaint resolution.
- Conversion of recorded customer calls during non-working hours to text for identification of critical complaints for follow-up.

MFIN Toll Free Number: 1800 102 1080 for customers of MFIN member NBFC-MFIs (Mon – Sat: 9:30 am - 5:30 pm)

### 4.1.2 Employee bureau

More than two-thirds of the micro-credit industry's employee base works at the operational-level directly interfacing with the customer. Such operational employees while being the primary interface of the company are also responsible for other critical aspects of the business, such as risks and compliances etc.

Clearly, getting employees with the right attitude and integrity is crucial. Due to the scale of operations, growth, and a high attrition rate, recruitment is a huge on-going task for the industry. Additionally, there is a high cross movement of employees within the industry as well. All of this makes for a compelling case for an efficient and objective platform for background checks in the recruitment process.

It is in this context that MFIN and Equifax, worked together in 2017 to create an Employee Bureau for the microfinance sector. Hiring personnel with the correct attitude and integrity is crucial, given that employees are responsible for credit transactions, customer interactions, and compliances.

The Employee Bureau makes a use case by offering a standard platform for exchanging employee details (personal data and job history) in order to increase hiring efficiency and integrity and provides a platform with incentive and deterrence to employees to ensure suitable professional behaviour. To support the programme, MFIN has instructed its members to provide data to the Employee Bureau and also encourages its usage during the recruiting process.

As a result, the Employee Bureau currently has a database of roughly 6 Lakh microfinance employees (1.6 lakh active), and comprises 71 member institutions including Banks, SFBs, NBFCs and NBFC-MFIs.

The bureau is not just beneficial to employers, but to employees as well. The employee's employment will be processed in a timely, efficient, and secure manner because the Employee Bureau cuts short the verification time. The Bureau also ensures that there is security of employee's personal data, confidentiality, and also reduces subjectivity because of standardised responses.

More than 51 lenders used the Employee bureau to verify applicants, making about 29,000 inquiries in the most recent monthly data available (Jul'22). The Employee Bureau has developed into an essential component in the selection process for lenders as since its inception, almost 17% of all employee exits reported to the Bureau have been unfavourable, demonstrating its crucial role in eliminating unsuitable hiring.

As more and more lenders join, the Employee Bureau will become an even more potent

instrument for enhancing the reliability and efficiency in the hiring procedure.

### 4.1.3 RADAR

The growth of the microfinance industry in the last decade has financial inclusion in every nook and corner of the country. The unprecedented expansion and growth across geographies from Rs 17,000 Cr in 2012 to Rs 285,000 Cr portfolio in 2022 brought millions of entrepreneurs from the informal economy into the fold of formal financial services. This started a long, unprecedented learning journey for Microfinance institutions and first-time customers. This growth neither changed the fundamental non-collateralised nature of the microfinance loan nor its commitment to reach every entrepreneur in rural and urban India across agriculture, service, or Industrial segments with simple and prudent processes.

This growth was possible with an active relation between field situations' dynamics and policy-making dynamics. This functional relation contributed to developing a conducive, supportive, and informed eco-system for delivering microfinance services.

MFIN truly represents the aspiration of Microfinance institutions to build a people-friendly, RBI regulation compliant and transparent microfinance industry. It never took its sight off the field where money circulates in customers' hands through microfinance loan products and services.

MFIN's efforts in this direction, among others, include State Chapters and District Forums, encompassing the functional space of institutions part of MFIN.

The growth of institutions to become national players led to the exploration of new geographies to expand their services. This brought risk

assessment centre stage and made it necessary to evaluate every business decision against the risk perception of the institution or the peers.

MFIN District platforms play a crucial role in the learning from field-level experiences of individuals and institutions. Quarterly meetings were organised at these platforms for the microfinance service providers across the country.

Here it was possible to capture field intelligence. This includes default areas, risk areas, ring leaders and external inciters of all the service providers in a district.

Every quarter, this data used to be compiled and shared with the State Chapters, Risk Heads and Heads of Institutions.

With this learning, the industry could flag the early warning symptoms to pre-empt risks and address them in time. This generated massive interest among the primary members and associate lending institutions as both these segments have been part of state and district forums. In no time, the information collected by district forums started growing in leaps and bounds, making the risk and audit team interested. Until then, information was collated in excel forms; thus, its usage has inherent limitations.

#### **Nature and scope of Radar**

The significance and use of digitised field intelligence gathered at District platforms of MFIN has been discussed with sector experts and member institutions' Risk, Audit, and Operations heads.

A broad Radar application design was planned and developed based on several rounds of discussion.

All agreed that this repository of field knowledge would equip them (members and associates). Over time, this would ensure stabilised district

forums, make them more amenable to the district authorities, and most importantly, bring constructive coordination among members in the field to know and deal with impending risks.

Given this positive response, SIT developed a prototype internally.

On the advice of the Board, the prototype was opened for Tamil Nadu state & Puducherry UT in March 2019. It was implemented, and elicited positive response.

It was then developed for all the states and implemented across the country.

Capacity Building Workshops and Training of Trainers have been organised to familiarise and foster an understanding of the Application's operation, role, and significance.

All Radar Participating Institutions will have easy access to the Radar application via REST APIs, allowing them to integrate their loan origination systems (LOS) and loan management systems (LMS) with the Radar Data.

The information uploaded shows that Radar provides a repository of ethnographic narratives of field experience and observations of operating institutions in a district. It has digitally captured the field experience of all RBI-regulated microfinance lending institutions on four critical parameters - Negative Areas, Risky Areas, Ringleaders (An individual who is within the system of microfinance as a customer and instrumental in siphoning loan amounts by luring other customers and duping them), and External Inciters (an individual who is outside the system of microfinance and instrumental in siphoning loan amount by attracting other customers and deceiving them). This micro-level information will be vital in identifying "early warning symptoms" and allowing MFIs to take timely, qualitative, and quantitative measures to avert a crisis.

Furthermore, Radar includes historical data on all four categories for the previous seven years on all four categories, particularly in states covered by MFIN State Chapters. MFIN facilitates implementing the Radar application in 403 district forum meetings covering 499 districts across the country where MFIN members and lending associate institutions are operating. In States viz. Karnataka, Kerala, Uttar Pradesh & West Bengal, MFIN facilitates RADAR implementation in coordination with the local associations AKMI, KASAFI, UPMA & AMFI-WB, respectively. An update is provided in **Table 4.1**.

**Table 4.1: Radar Portal update as of Aug'22**

Category	Total Data reported in the Portal	Approved for Dashboard
Ringleader	1,731	1,581
Negative Areas	1,997	1,261
Risky Areas	1,785	1,734
External Inciter	172	144
<b>Total</b>	<b>5,685</b>	<b>4,720</b>

The Radar application has been operational for one year. On July 23, 2021, it was made available in all states. All MFIN Members and lending Associates are participating in the application.

#### 4.1.4 Initiative on preparedness against climatic disasters – Natural Catastrophe Insurance

MFIs in India usually grant group-based micro credit to rural communities, which consist of micro-entrepreneurs, laborers, and farmers' households, mostly women. MFI customers use these loans as one of their most important financing sources on a regular basis for production assets, investments, bridging financial gaps, and other activities. In case of a natural catastrophe,

these rural communities face difficulties in repaying their loan instalments due to their low financial resilience.

In India, which is one of the most climate risk prone countries<sup>16</sup>, natural catastrophe (NatCat) events constitute a major risk to the rural poor and vulnerable people, who are particularly exposed. There is increasing scientific evidence that climate change will most likely increase frequency, severity, and unpredictability of extreme weather events in India. The low-income households (LIH) suffer disruption in income generation activities (IGAs) in the wake of natural catastrophes. Some of the major impact of such events for the microfinance customers are:

- Disruption of the local economy resulting in negative impact on livelihood
- Financial stress on LIHs resulting in negative coping strategies, often including stress sale of assets, leading to worsening of household's financial well-being
- Data on repayments from microfinance clients shows that disruption in income is prominent in the initial few months post the disasters where the customers find it difficult to take care of household expenses as well as to service the loans taken to support the IGAs.
- Non repayment of instalments by microfinance clients also impacts their CB records and negatively affects their ability to access finance in the future.
- NatCat prone areas are often less penetrated by MFIs due to the perceived risk caused by lack of protection against client defaults.
- NatCat events also impact the portfolio quality of MFIs and therefore extra provisioning

requirements. Further, they have limited action range (like top-up loans, health camps etc.) to tackle such situations. As such, their ability to provide access to finance in remote and NatCat prone areas becomes limited, which is detrimental to the financial inclusion initiatives.

The microfinance industry has presence in 633 districts in 28 states and 9 union territories. About, two-thirds of these loans are disbursed in rural areas, which are generally prone to natural disasters. MFIs usually operate on low profit margins and in case of loan repayment delays, they face higher recollection costs, increased loan loss provisioning requirements which also impacts their lending and investing capacities. Hence, the opportunity costs of such NatCat events represent an unmitigated and unmonitored burden.

Given the difficulties for MFIs and its borrowers to cope with these natural disasters, the large-scale risk of natural catastrophes remains unprotected, unmitigated and unsolved. As such, there was a clear need for devising products to enable them to tackle the financial stress due to NatCat events, to continue promoting financial inclusion in a sustained manner.

To address the needs of the stakeholders in the microfinance ecosystem, MFIN in collaboration with GIZ and Weather Risk Management Services (WRMS) jointly developed a NatCat insurance product for the microfinance borrowers with support from Swiss Re India as reinsurer and Chola MS General Insurance (Chola) as primary insurer. The primary objective of the NatCat insurance product is to provide solutions to the microfinance borrowers to cope better with the risk associated with natural disasters. The broader purpose is also to create value for all those who are associated with the microfinance ecosystem, as summarized in **Table 4.2**.

<sup>16</sup> UNISDR Report 'Economic Losses, Poverty and Disasters 1998-2017'.

**Table 4.2: Objectives of NatCat insurance product**

Value creation at different stakeholder level		
Customer level	MFI level	Sector level
<ul style="list-style-type: none"> <li>• Reduce financial stress and negative coping strategies</li> <li>• Enhance financial resilience by facilitating restart of IGAs</li> <li>• Enabling customers to access loans during stress period by reducing impact on CB records</li> </ul>	<ul style="list-style-type: none"> <li>• Protection against customer defaults &amp; therefore credit losses/provisioning</li> <li>• Enabling expansion to difficult (Natcat prone) areas &amp; ensure Access to Finance (A2F)</li> <li>• Adoption of proactive risk management approaches</li> </ul>	<ul style="list-style-type: none"> <li>• Contributing to MFIN's vision of fostering client protection, responsible lending &amp; financial inclusion.</li> <li>• Lessons for countries in South Asia and Asia Pacific that are prone to natural disasters to come up with similar products.</li> </ul>

The product titled, “NatCat Index Insurance for microfinance Borrowers”, was approved under Regulatory Sandbox by Insurance Regulatory and Development Authority of India (IRDAI) for a limited period and limited scale trial from November 15, 2021 to May 14, 2022. The key features of the product are:

- The product provides index-based coverage against four natural perils - flood, drought, cyclone, and earthquake. Index or parametric insurance means, guaranteed payouts on occurrence of specified NatCat events as soon as it crosses a pre-specified level (trigger/parameter) during the insurance cover period and based on the severity of the event.
- Cover up to three months of loss of income of the policy holder, the proxy indicator for which is “monthly repayment obligation to the lender/MFI”.
- Offered to microfinance borrowers as an optional product and policy underwritten

separately for each loan account of a borrower based on their consent

- MFIs shall be the Master Policy Holders and shall facilitate the awareness generation, enrolment and claim settlement process.
- The Master Policy Holder shall have the flexibility of choosing one or more of the four perils based on their risk perception of a district. All insured customers will get an insurance certificate individually.
- The unit of insurance for all perils shall be the entire geographical area falling within the Pin code Area, in which the Insured's residence address falls, as declared in the loan application. Pricing shall be determined at the district level.
- Claim computation will also be done at the Pin code level, by comparing the observed values of Insured event for the area and the Pay-out trigger for the district.

The product was put on trial in partnership with two MFIN Members MFIs in Odisha, though it was not able to achieve the full potential in terms of enrolments. This was mainly due to two reasons (i) limited time for preparations since customer awareness and field staff training are key components for creating demand for this product and (ii) coinciding of the trial period with the announcement of the “harmonized regulations for microfinance by RBI” in Mar’22 which took away the major bandwidth of all MFIs (including the two partners) for getting ready for implementation and compliance with the new regulations. Important lessons learnt during the trial are:

- Client level awareness of insurance products and the benefits is very low in all geographies of the country, especially among the vulnerable class living in rural/ semi urban areas.
- Awareness around Index based insurance products or any NatCat product except Government supported agri insurance is almost non-existent.
- Since the Natcat insurance product is the first instance of such an offer to microfinance clients and has a relatively complex structure in comparison to other products which they use (like credit life, hospicash or house content insurance) it will need a longer gestation period for demonstrated impact. Intensive client education and awareness building activities are crucial for building acceptance and understanding of the NatCat insurance product, which was not possible during limited period trial.
- Further, MFI branch staff level product understanding is equally important as they form the first point of client interface and would be involved in awareness creation among microfinance clients. The branch staff constitute around 70% of MFIs staff strength and their capacity building will require a concerted effort.
- However, despite these challenges around 2,500 enrolments happened during the trial period (which was effectively 2-3 months for enrolments), in three districts of Odisha (Cuttack, Jajpur and Mayurbhanj) which indicates a reasonable demand for the product. With better client awareness and demonstration effect, the demand would certainly increase and so will the risk coping ability of borrowers and MFIs.
- It is also expected that with higher demand, wider rollout and therefore diversification of NatCat risks across geographies would provide economies of scale for price adjustments and making the product more appealing to the microfinance clients.

After the limited-period trial it is important to have a full-scale pilot of the product before it can be rolled-out country wide. The plan is to pilot it in selected states that have a strong base of microfinance borrowers, are geographically diversified (East, West and South), have higher propensity of occurrence of different perils and those that have already been exposed to adverse weather events in recent past. MFIN awaits IRDAI’s approval for a regular product, so that the pilot can be implemented in multiple states and scaled-up. Discussions are also on with a multilateral agency that is keen to support this initiative.

## 4.2 Institution level

### 4.2.1 Certification of field officers

Most employees in the microfinance sector are young professionals with little to no experience. They also have limited skill set as per the demand of the jobs. The result is a constant requirement for training the workforce due to changes in both the business environment and operational processes.

Instruction through digital/online methods has been accelerated by improvements in technological infrastructure, greater accessibility of cell phones, as well as limitations brought on by COVID-19. Though both physical and digital training have their own merits, the digital programmes offer constant quality and innovative content, flexibility, customization, and monitoring at scaled-down prices as opposed to physical training.

Learning management systems (LMS) are being adopted by lenders more frequently to combine the delivery of information and learning for improved learning results. There was also a compelling rationale to create industry-level training modules that lenders may use to supplement their own training because many training requirements are identical.

A few years back, MFIN helped the framing of the National Occupational Standards for micro-credit officers and also developed a training program for loan officers focusing on customer protection. Building on this experience of developing digital content and administrating training and certification programs, MFIN created and promoted an extensive seven-part training curriculum for micro-credit officers.

The curriculum was created by MFIN to provide a conceptual grasp of the crucial facets of microcredit. For instance, it discusses loan

appropriateness and loan amount based on the customer's ability to repay them instead of mentioning particular limits on multiple borrowing or debt, ensuring the material remains logically relevant to a changing market.



Members were also made aware of the program's content via videos and audiobooks. Nearly 8000 field officers took the test and those who passed were certified.

Additionally, MFIN has created shorter informational content on topics like COVID-19 safety protocols, credit-linked life insurance, the dos and don'ts of operating during elections, and customer grievance redressal. Most recently, MFIN has also created instructional videos that inform microfinance loan officers and clients about the new RBI regulations and their roles.

For easier and broader adoption amongst existing and prospective employees, the entire content is publicly available and has garnered thousands of views.



## 4.2.2 Credit Guarantee Scheme for MFIs

As discussed, in 3.2.3 the CGSMFI was conceptualised primarily in response to the liquidity situation of the smaller players who were not able to access funds despite efforts by the RBI and GOI through various schemes. While MFIs with deeper pockets were able to manage their liquidity better, the effect of selective back-to-back moratorium to MFIs by their lenders and negligible repayments by their clients severely impacted the cashflows of the smaller players.

The credit guarantee scheme was a major relief for the MFIs and in particular the smaller ones. Under this scheme, guarantee was provided to Scheduled Commercial Banks (SCBs) for loans to new or existing NBFC-MFIs or MFIs for on lending. The scheme focused on new lending, and not on repayment of old loans. MFIs were to lend to the borrowers in line with extant RBI guidelines such as number of lenders, borrower to be member of JLG, ceiling on household income & debt etc.

MFIN played a crucial role by being in constant communication with the DFS, apprising them of the current status of disbursements in a timely manner, sharing lists of eligible MFIs for lending, and contributing to any follow-up calls etc.

MFIN also regularly engaged with MFIs as well as lenders to understand the issues they are facing including sanction and disbursement difficulties from Banks to MFIs, as well any disbursement issues on ground etc. These were also communicated to DFS on a regular basis.

The scheme provided much-needed boost to the sector with over Rs 7,200 Cr disbursed to 38 MFIN member MFIs and 99% of that on-lent to almost 17.75 lakhs microfinance borrowers, as shown in **Table 4.3**.

**Table 4.3: Outreach of CGSMFI**

Size of MFI	Loan Disb. by Banks to MFIs Rs Cr	Loan Disb. to Clients Rs Cr	No. of Clients with Loans (Lk)
Large	6,327	6,254	15.21
Medium	825	821	2.38
Small	58	56	0.15
<b>Total</b>	<b>7,209</b>	<b>7,131</b>	<b>17.74</b>

## 4.2.3 Impetus – an online platform to facilitate fundraising by small and medium MFIs

The NBFC-MFIs are largely dependent on wholesale borrowings from banks/other financial institutions at commercial rates and equity to finance and grow their portfolio. As per the data available for MFIN members which form around 82% of the NBFC-MFI universe in terms of loan portfolio, debt contributed around 74% and equity around 26% of the total sources of funds (as on March 31, 2022)<sup>17</sup>. However, for small size MFIs<sup>18</sup> the contribution of debt falls to around 70%. Moreover, the major portion (~86% for Small and ~77% for Medium) of lending for small and medium MFIs comes from non-Bank sources, which are costlier. Bank credit which is a preferred source due to comparatively lower price, is not easily accessible by the small and medium MFIs.

While negotiating with institutional lenders for debt is a major ongoing activity for all MFIs, the small and medium MFIs face a lot of challenge in sourcing it, mainly because of smaller economies of scale. As has been observed, large MFIs have a specialized talent pool which is exclusively

<sup>17</sup> MFIN Micrometer, 41st Issue, Q4 FY 2021-22

<sup>18</sup> MFIN categorizes its members into small (< Rs 100 Cr), medium (Rs 100 to 500 Cr) and large (>Rs 500 Cr) in terms of their gross loan portfolios.

dedicated to investor relations. However, for Small and Medium MFIs, hiring and maintaining a team of specialists for investor relation is unviable. As a result, access to information as basic as investors active in the microfinance space is sometimes not fully known to smaller players. On the other side most investors and lenders mainly get to know about large entities and the good work of smaller entities doesn't reach the investors to generate sufficient interest which can culminate into a lending decision.

In addition, in order to leverage debt, the MFIs also need to be sufficiently capitalised with timely inflow of equity investments which is also a challenge for the small and medium MFIs. The small and medium NBFC-MFIs are a crucial segment catering to 21 Lk clients - directly impacting ~1 Cr lives. In terms of numbers, 32 out of 56 MFIN members are in the small and medium category with portfolios <Rs 500 Cr. More importantly, the small and medium MFIs are the future of the sector and it is essential to help them grow sustainably so that they can contribute to furthering the financial inclusion vision of MFIN.

Therefore, to support the small and medium NBFC-MFIs, MFIN facilitated the establishment and operationalisation of Impetus in partnership with Mindstone Maven LLP, an investment banking and transaction advisory firm. **Box 4.1** highlights the major issues of small and medium MFIs which Impetus tries to address.

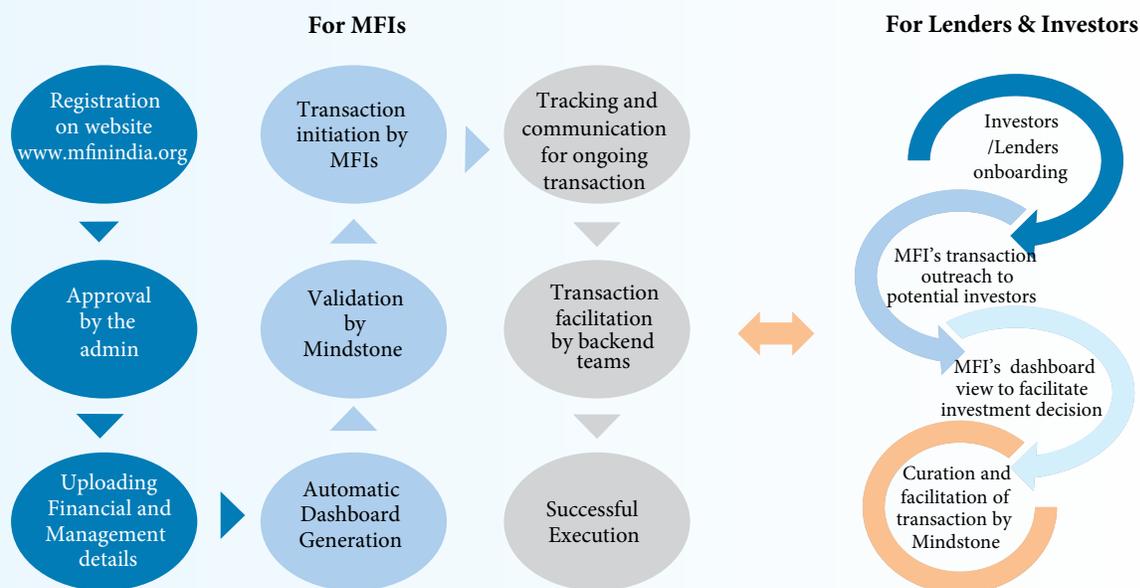
#### **Box 4.1: Major issues of small and medium MFIs**

- Low visibility among stakeholders
- Uni-dimensional funding at high cost, Equity constraint
- Limited bandwidth & capacity.

The platform has been designed as a dynamic and interactive system to showcase qualitative & quantitative aspects of the MFIs to a range of prospective Investors & Lenders. The platform aims to create a comprehensive ecosystem, wherein the lenders & investors can have continuous access to updated, validated, and curated information on the MFIs. The platform also enables two-way communication to facilitate the fund-raising interactions between the MFI and the lenders/ investors. **Box 4.2** provides an update on Impetus.

#### **Box 4.2: Impetus implementation update**

So far, 23 small and medium size NBFC-MFI members of MFIN have been onboarded to the platform. Their profiles and login Ids have been created and operational & financial data upload is underway. Six lenders and a few HNIs have also been onboarded.

**Figure 4.5: How Impetus works – process flow**

### 4.3 Client level - Capacity building initiatives

The new Microfinance Regulations required a quick dissemination of the changes across the employees of MFI companies as well as the customers. MFIN launched an awareness campaign with the aim to reach out to the target audience through multiple channels including the branches of MFIs as well as through social media channels viz. YouTube, LinkedIn, MFIN and MFI websites. Following collaterals were released for the customers.

#### Videos:

Brief guide for customer's awareness on the new 'Regulatory Framework of Microfinance loans, 2022': In order to familiarize microfinance customers on the new regulations, a short, animated video focussing on the concepts of household, microfinance client and income assessment was released on 25th Apr 2022. The [video](#)<sup>#</sup> had more than 4,000 views on YouTube in less than 10 days.

<sup>#</sup> [https://www.youtube.com/watch?v=ofdDArAnxXI&ab\\_channel=MFIN](https://www.youtube.com/watch?v=ofdDArAnxXI&ab_channel=MFIN)

<sup>\*</sup> [https://drive.google.com/drive/folders/1PDHxVAM9NICruLDfUZ\\_plu1pAdKYRpb8?usp=sharing](https://drive.google.com/drive/folders/1PDHxVAM9NICruLDfUZ_plu1pAdKYRpb8?usp=sharing)

#### Posters:

With the purpose of motivating conversations around the new regulations between the customers and the branch staff of MFIs, poster in Hindi was released on 11th Apr 2022. The poster captured crisp information on the new regulations and talked about the concept of household, microfinance client, maximum loan limit and credit assessment. MFIs were encouraged to print and put up the posters in their branches. The posters were very well received, and MFIs expressed an urgent need to have them in vernacular languages. Consequently, posters in 8 languages (English, Bengali, Gujarati, Kannada, Malayalam, Marathi, Odia and Tamil) were released on 18th Apr 2022. The posters can be accessed through this [link](#).<sup>\*</sup>

#### Learning Collaterals:

Eight short-recorded important messages in nine vernacular languages for a microfinance customer were released. The members used these messages through various channels – Integration

in the IVR of their helpline no, playing them in centre meetings, ticket display in branches etc. The messages are in the **Box 4.3**. The recorded audio messages and written script in 9 vernacular languages can be accessed through this [link](#).\*

**माइक्रोफाइनेंस के नए नियम**

याद रखने वाली बातें

- RBI ने एक अप्रैल 2022 से माइक्रोफाइनेंस के लिए नए नियम लागू कर दिए हैं.
- इन नियमों से सम्बंधित कंपनियों और क्लाइंट्स के लिए आवश्यक बातें

<p><b>परिवार</b></p> <p>RBI के मुताबिक एक परिवार (हाउसहोल्ड) का मतलब है पति, पत्नी और उनके अविवाहित बच्चे.</p>	<p><b>आण की अधिकतम सीमा</b></p> <p>परिवार में सभी लोगों के द्वारा लिए गए सभी लोन की टोटल मासिक किस्तें (EMI) परिवार की मासिक आय के 50% से ज्यादा नहीं होनी चाहिए. इसका अधिकतम लिमिट बहुत नीच से रखा जाएगा.</p>
<p><b>माइक्रोफाइनेंस क्लाइंट</b></p> <p>अगर क्लाइंट के परिवार की सालाना आमदनी अधिकतम 3 लाख तक हो तभी उनको माइक्रोफाइनेंस लोन मिल सकता है जिसके लिए क्लाइंट से कुछ भी गिरवी नहीं रखवाया जाएगा.</p>	<p><b>अस्सेसमेंट</b></p> <p>अब लोन देने से पहले न सिर्फ क्लाइंट की, पर उनके पूरे परिवार की आमदनी का सु-जाचना होगा. क्लाइंट की बताई हुई जानकारी को क्लाइंट और सबूतों से भी परखा जा सकता है.</p>

क्लाइंट को सही जानकारी देते हुए अपनी क्षमता के अनुसार ही लोन लेना चाहिए जिसे वह आसानी से चुका पाए.

इस समय में कश्मिरा कला के नए नियमों के विवरण से अपनी कंपनियों और क्लाइंटों से सलाह कर रही हैं. क्लाइंट से किसी भी भी इस प्रकार की सलाह से नए अपने लोन अधिकार का पूरा सावधान रहें.

#### Box 4.3: Transcript of recorded messages

- Please note that the loan should be availed as per your income and expenses, so that it can be conveniently repaid.
- Not repaying loans on time not only increases the interest but also your credit bureau record deteriorates, because of which you may have difficulty in getting loan in future.
- You should always give correct information of your income and expenses while availing loan to ensure that the amount of loan you get, is convenient for you to repay.
- While availing loan, always give correct identification documents to avoid any kind of fraud and manipulation. Loan company checks the documents given by you and in case of incorrect documents, your loan may be rejected.
- In case of any misbehaviour by the staff of the finance company, report it immediately to their helpline number. The helpline number is available in the loan card provided by the company.
- Always utilise the loan amount for the purpose for which it has been availed. Do not spend the loan amount in unnecessary expenses, as because of this you may have difficulty in repaying the loan in future.
- Please be cautious that the loan is not availed on behalf of someone else. This is wrong and you may have to bear loss because of this.
- Please be informed of the necessary information like loan amount, instalment amount, duration of loan, repayment date, processing fees etc, before availing any loan.

\* [https://mfindexia-my.sharepoint.com/personal/sheetalprasad\\_mfinindexia\\_org/\\_layouts/15/onedrive.aspx?id=%2Fpersonal%2Fsheetalprasad%5Fmfindexia%5F%2FDocuments%2FCGRM%2FIVR%2CDisputed%20Complaints%2FIVR%2FIVR%20phase%202%2FIVR%5FMessages%5Fto%20members%26ga=1](https://mfindexia-my.sharepoint.com/personal/sheetalprasad_mfinindexia_org/_layouts/15/onedrive.aspx?id=%2Fpersonal%2Fsheetalprasad%5Fmfindexia%5F%2FDocuments%2FCGRM%2FIVR%2CDisputed%20Complaints%2FIVR%2FIVR%20phase%202%2FIVR%5FMessages%5Fto%20members%26ga=1)

## Chapter-5

# The prognosis – healthy signs for complete recovery

### 5.1 Progress so far

The microfinance sector has seen a rapid evolution over the last decade. The gross loan portfolio increased more than 16 times from Rs 17,264 Cr as on March 31, 2012 to Rs 2,85,441 Cr as on March 31, 2022. During the same time, the number of customers increased three-fold to more than 6 crores. The market structure underwent a change as more types of financial entities started offering microfinance loans. Today more than 200 regulated entities comprising Banks, SFBs, NBFC-MFIs and NBFCs contribute to nearly 99% of the portfolio. The customer also evolved rapidly with the adoption of mobile phones and internet, and exposure to the latest trends due to proliferation of social media. In the financial services industry, the Jan Dhan scheme enabled widespread availability of savings and transaction accounts and digital transactions saw a swift growth. The microfinance lenders kept pace with these changes and introduced various initiatives for increasing customer engagement and improving efficiency.

Over the last decade, policymakers in India have been challenged with providing India a stable path to economic growth balanced with reduction in economic inequality. The

trickledown advantages of economic expansion to the bottom of the economic ladder have been less than ideal. In this setting, microfinance serves as an important 'direct intervention' approach to assist the underprivileged in improving their economic situation. An MFIN-commissioned research project by the NCAER projected that the microfinance industry contributed 2.03% of GVA in 2018-19 while creating approximately 1.3 Cr jobs.

The microfinance model today deploys an optimum mix of technology and human touch, and the MF sector has embraced digitalization while keeping in mind the levels of financial literacy and the evolving consumer behaviour. A separate credit bureau for MF loans was set up in 2011 and now all loans and repayments are reported to the credit bureaus. NBFC-MFIs & banks have invested in a robust technology framework to enable data upload to the credit bureaus on a daily or weekly frequency. Faster turnaround of loan applications and customer complaints is being achieved by use of tab based solutions and the central KYC registry. A field force of more than 2.5 Lk across the sector provides an assisted digital interface to the borrowers.

Underwriting models use data on credit experience with different customer segments and compulsorily use the credit bureau reports. Nearly 100% of microfinance loans are being digitally disbursed directly to the borrower's bank account. At the same time, concerted efforts to make the borrowers comfortable with digital repayments have shown very good results. All these initiatives are in addition to the weekly or fortnightly group meetings attended by the field officers of the lender to enable the human touch required in last mile delivery of financial services.

MFIN has been instrumental in multiple initiatives to strengthen the sector during the decade and to develop the microfinance ecosystem. Employee Bureau was established in 2017 with the purpose of evolving progressive employee engagement practices. Today, it has a database of more than a lakh active records and counts Banks, SFBs, NBFCs and NBFC-MFIs amongst its members who use it for reference checks and checking employment history of new applicants. More than 51 of these lenders used the Employee bureau to verify applicants, making about 29,000 inquiries in the most recent monthly data available. It has developed into an essential component in the selection process for lenders as since its inception, almost 17% of all employee exits reported to the Bureau have been unfavourable, demonstrating its crucial role in eliminating unsuitable hiring.

RADAR, a digital tool to capture field level information and actionable intelligence in terms of default areas, risk areas, ring leaders and external inciters was launched in 2021. The MFIN

team has focussed on training the members' teams to develop the discipline of regularly updating the information. District Risk Index (DRI) maps are developed on the basis of CIC reports by analysing the microfinance portfolio at the district level. These maps are updated every month and made available to the members to guide their decisions in terms of geographic expansion as well as the intensity of portfolio exposure.

As an SRO, MFIN has been deeply involved in strengthening the microfinance sector through its various initiatives to enable its members navigate the changes in the business environment successfully. Demonetization and COVID were unforeseen shocks which tested the resilience of the sector. The operational strength of the JLG business model and its focus on customer centricity were the main reasons behind the sector navigating these shocks with minimum damage. Regular contact and engagement with borrowers were maintained during these periods of turbulence. Schemes related to moratorium and loan restructuring were quickly rolled out to the eligible borrowers. At the same time, CSR initiatives related to vaccination, providing food and other relief measure were conducted at a large scale by the sector to support the borrowers.

As the COVID fears have abated, the sector has bounced back well. The harmonized regulations for microfinance have come as a shot in the arm. Armed with the freedom to operate as per their board approved guidelines, the sector is well poised for a stable and steady growth over the coming decade and the future.

### Future of the Indian MFI sector – the road ahead

Microfinance is a critical aspect of Financial Inclusion which is a national priority. With a portfolio outstanding of close to Rs 3 Lk Cr serving 6 Cr borrowers by Sep'22, the sector has come of age & size. Clearly the new RBI guidelines on credit harmonisation which now allows REs including NBFC MFIs to price for risk & cost is a paradigm shift in creating a level playing field and heralds stage 3.0 of the evolution of the business. Credit quality will improve, and the better viability will attract new investments in the space leading to debt leverage and better formal coverage of this critical but underpenetrated BoP segment.

#### Manoj Kumar Nambiar

MD, Arohan Financial Services Limited

## 5.2 Opportunities and challenges

The current microfinance market size is estimated at Rs 11.5 lakh crores which is expected to increase to Rs 16 lakh crores by 2025-26. As the current market penetration is approximately 30%, the market offers tremendous scope of reaching out to more clients and bridging the credit gap. The new regulations for microfinance released by RBI in March 2022 have moved away from entity-based regulations to activity-based regime and in doing so provided a useful case study of how a regulatory regime may adapt naturally in response to changing market dynamics, industry self-regulation, consumer evolution, technological spread, and the emergence of sector-specific institutions.

These regulations put all the different microfinance providers on the same footing and position the industry for the next phase of growth very well. The announcement has been welcomed by all stakeholders, but it also requires the sector to display nimbleness, notably in getting the systems ready for implementation and monitoring compliance with the new standards not just at the business level but also at the credit bureau and SRO level. As we know, for long term sustainability, efforts at expanding market reach must be accompanied by an intense focus on customer education, transparency and protection.

The Code of Conduct (CoC) for the microfinance industry released in October 2022 must be followed in letter and spirit. Evolved after intense discussions across the sector over a period of more than four months, the CoC incorporates elements of Universal Standards of Social Performance Management (USSPM), Client Protection Principles (CPP) and sector best practices. Its implementation will require increased focus and investment in training the borrowers as well as the lender staff. Digital processes are being widely adopted by microfinance lenders to improve process efficiency and customer experience. At the same time, the speed of adoption and the level of comfort with digital interactions might differ across borrowers. The lenders should keep this aspect of customer adoption in mind and ensure that adequate measures are taken in terms of training and grievance redressal when introducing such initiatives. COVID had an impact on the discipline of weekly meetings and consequently negatively impacted customer engagement. Thrust towards digital collection of repayments also seems to have reduced the need to attend the weekly meetings. Frequent meetings with the customer are one of the pillars of MF lending process. Lenders would need to continue to focus on institutionalizing this practice and to prevent its dilution. However, it should be mentioned that the revival of collections has been greatly aided

by digital collections. Although 98% of payments are made cashless, collection by digital methods climbed from 5% in the pre-pandemic era to 13% in Q4 FY 21-22, enabling speedier recovery and more consumer comfort.

Although digital modes increase process efficiency, they also give rise to the possibility of borrowers falling victim to fraudsters. Rapid growth of digital lending apps has increased these risks. The recently released RBI regulations regarding such activities are a positive step.

As the industry is going through these wide-ranging changes and adjusting to a new normal, CGRM is going to be of pivotal importance. The modularization of product delivery and customer service has been seen to impact customer experience. The lenders would have to be mindful of the aspects of customer interaction and protection which they continue to manage inhouse. At the same time, rapid advancements in AI applications in this area promises an enhanced experience to the customers. Lenders would have to plan adoption of such tools to improve their customer centricity.

The sector also needs to be cognizant about the possible risks arising out of portfolio concentration and the opportunity provided by the underpenetrated districts. When the Top 10 states are examined at the state level, they provide 82.4% of total GLP and total accounts as of March 31, 2022. Analysis at the district level reveals that activities are concentrated in the Top 300 districts, which account for over 88.1% of total GLP. From a geographical risk management standpoint, the data reveals that there are around 333 districts where the depth of outreach is less than the national average and much less than the Top 300 districts, and where FIs can consider increasing operations. The new regulations allow flexibility to the lenders to design policies to respond to such situations.

In summary, while the MF market provides the potential for rapid growth to the lenders, increased focus on customer education, engagement and protection will lay the ground for a long period of sustainable growth.

*Annex-A*

# Chronology of relevant policy and regulatory developments

## Reserve Bank of India

April 7, 2021: **Priority Sector Lending (PSL) - Lending by banks to NBFCs for On-Lending:** With a view to ensure continued availability of credit to priority sector under Agriculture and Micro & Small Enterprises to aid faster economic recovery, it was decided to extend the PSL classification for lending by banks to NBFCs for on-lending by six months i.e. up to September 30, 2021.

April 27, 2021: **Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs):** Guidelines for appointment of SCA/SA made applicable on non-deposit taking NBFCs above Rs. 1000 Cr asset size. Such NBFCs are now required to intimate RBI on appointment of SCAs/SAs within one month of their appointment. Same circular mandates all REs to have a board approved policy for appointment of SCAs/SAs. It also provides guidelines for professional standards of SCAs/SAs.

May 5, 2021: **Priority Sector Lending (PSL) - On-lending by Small Finance Banks (SFBs) to NBFC-MFIs:** To address liquidity challenges brought about by COVID pandemic, RBI allowed SFBs to lend to NBFC MFIs and other MFIs which are member of RBI recognized SROs and are below Rs 500 Cr in GLP to the tune of 10%

of their total PSL. This dispensation is valid till March 21, 2022.

May 5, 2021: **Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses:** In view of resurgence of COVID cases, RBI issued Resolution Framework 2.0. Entities were permitted to invoke resolution plan till September 30, 2021. Entities were allowed to reschedule payments, convert interest accrued or to be accrued into another credit facility, revise working capital sanctions and grant moratorium.

June 24, 2021 : **Declaration of dividends by NBFCs:** To infuse greater transparency and uniformity in the practices of REs RBI issued guidelines on declaration of dividends by NBFCs. The guidelines clarified the minimum requirements for RE to be eligible to declare any dividend as well as the maximum quantum of dividend which can be declared.

June 24, 2021: **Resolution Framework for COVID-19-related Stress – Financial Parameters – Revised timelines for compliance:** In view of the resurgence of the Covid-19 pandemic in 2021 and recognising the difficulties it may pose for the borrowers in meeting the operational parameters, it was decided to defer the target date for meeting the specified thresholds in

respect of the four operational parameters, viz. Total Debt / EBIDTA, Current Ratio, DSCR and ADSCR, to October 1, 2022.

September 13, 2021: **Application for Aadhaar e-KYC Authentication Licence:** Vide circular dated May 9, 2019 Department of Revenue, Ministry of Finance had issued the procedure for processing of applications under the Section 11A of the PML Act, 2002 for use of Aadhaar authentication services by entities other than banking companies. On September 13, 2021, RBI issued a circular allowing Non-Banking Finance Companies (NBFCs), Payment System Providers and Payment System Participants desirous of obtaining Aadhaar Authentication License - KYC User Agency (KUA) License or sub-KUA License (to perform authentication through a KUA), issued by the UIDAI to submit their application.

**September 24, 2021: Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021:** RBI issued the Master Direction on Securitisation of Standard Asset under which detailed guidelines on assets eligible for securitisation, minimum retention requirements, origination standards, payment priorities and observability and all other aspects of securitisation were addressed.

**September 24, 2021: Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021:** Similar to the Master Direction on Securitisation, this Master Direction provided all required information and necessary regulations applicable for transfer of loan exposure including non-performing assets.

October 1, 2021: **Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances:** A new Master Circular for prudential norms was issued by RBI consolidating all instructions on prudential norms on income recognition, asset classification and provisioning

pertaining to advances issued after the previous circular dated July 1, 2015.

October 14, 2021: **Data Format for Furnishing of Credit Information to Credit Information Companies:** Vide this circular RBI issued Uniform Credit Reporting Format (CIR) for all REs to report to Credit Information Companies (CICs).

October 22, 2021: **Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs:** RBI issued Scale Based Framework to encompass different facets of regulation of NBFCs covering capital requirements, governance standards, prudential regulation, etc. The guidelines shall become effective from October 1, 2022. For the purpose of this regulation, NBFCs are now divided in three segments with clearly outlined regulations - NBFC - Base Layer (NBFC-BL), NBFC - Middle Layer (NBFC-ML) and NBFC - Upper Layer (NBFC-UL) respectively. NBFCs in Upper Layer will be subject to enhanced regulatory requirements as per the framework.

November 12, 2021: **Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications:** RBI issued a clarification on the IRACP norms with a view to harmonize the regulations across different lending institutions. As per this clarification all NPA accounts will be eligible to be moved to standard account only after all payment of entire interest and principal arrears. Another important point mentioned in the clarification is that all accounts coming into SMA/NPA classification should be recognized immediately on the date of them coming into SMA/NPA category.

November 15, 2021: **Appointment of Internal Ombudsman by Non-Banking Financial Companies:** Vide this circular RBI mandated all non-deposit taking NBFCs with asset size more than Rs 5,000 Cr and having a public customer

interface to appoint an Internal Ombudsmen (IO). The circular provides detailed requirements for appointment of IO, their tenure, roles and responsibilities and other aspects of conduct of IO's role.

December 14, 2021: **Prompt Corrective Action (PCA) Framework for Non-Banking Financial Companies (NBFCs):** With NBFCs growing in size and having interconnectedness with other segment of the financial system it was decided to bring NBFCs under PCA framework. The framework will become applicable from October 1, 2022. The framework outlines the thresholds which will be applicable for identification of potential risks and corrective actions applicable according to them.

February 23, 2022: **Implementation of 'Core Financial Services Solution' by Non-Banking Financial Companies (NBFCs):** As per the Scale Based Regulations, NBFCs with 10 or more branches as on October 1, 2022 are required to adopt a Core Banking Solution. NBFC - Middle Layer (NBFC-ML) and NBFC - Upper Layer (NBFC-UL) are required to mandatorily implement a Core Financial Service System (CFSS) to provide seamless customer interface in digital offerings and transactions relating to products and services with anywhere / anytime facility, enable integration of NBFCs' functions, provide centralised database and accounting records, and be able to generate suitable MIS, both for internal purposes and regulatory reporting. It is required that compliance be done before September 30, 2025 on this circular.

March 14, 2022: **Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022:** To harmonize the regulatory landscape for microfinance entities, the Master Directions on Regulatory Framework for Microfinance

Loans was issued. This Master Direction is based on activity based regulation and provides new definition of microfinance and new set of regulations to be followed by all entities in the microfinance space.

## Government of India

July 15, 2021: **Credit Guarantee Scheme for MFIs:** Credit Guarantee Scheme for MFIs was introduced by Ministry of Finance, Government of India under National Credit Guarantee Trustee Company Ltd. Under this scheme in the context of COVID-19 pandemic a credit guarantee was announced to eligible institutions for funding provided by them to NBFC MFIs or MFIs for on lending to small borrowers. Last date of coverage of funding proposed under the scheme was March 31, 2022 or till guarantee fund of Rs. 7,500 Cr is not exhausted.

August 24, 2021: **Assam Micro Finance Incentive and Relief Scheme:** The Government of Assam signed an MoU with 38 MFIs and Banks which will remain in force till March 31, 2023. The scheme is extended to all 14 lakhs microfinance borrowers of Assam to the extent of loans from up to 3 lenders and for loan amount up to Rs 1.25 lakhs only.

June 16, 2021: **Extension of date for MSME registration:** Wide this gazette notification the date till which existing MSME had to register on Udyam Registration Portal was extended from March 31, 2021 to December 31, 2021.

August 18, 2021: **Detailed instructions for Lending Institutions (LIs) regarding the 2nd tranche of loan under PM Svanidhi:** Ministry of Housing and Urban Affairs, Government of India issued the updated guidelines for PM Svanidhi for 2nd tranche of loans under the scheme.

*Annex-B*

# Steps by the SRO for customer protection

## Advisories/Directives/Guidance Notes

To support the members in evolving policies and processes to adhere to the new regulations, the following directive/advisories were issued:

- Directive on Pricing regarding submission of rate of interest, Processing Fee (PF), Internal Rate of Return (IRR) and Effective Interest Rate (EIR)
- Advisory on Pricing regarding submission of the board approved pricing policy
- Advisory on Household Income Assessment regarding submission of the board approved HH income assessment framework

To reiterate the importance of being aware and adhere to the circulars/notifications issued by the RBI and the Government regarding the engagement of NBFCs/Banks with digital lending platforms/mobile apps, following advisory was issued:

- Advisory on Digital lending

To support the members to follow some necessary standards with respect to treatment of employees, which subsequently has impact over customer servicing too indirectly, following advisory was issued:

- Advisory for fair treatment of employees

## Customer Surveys

Leveraging on MFIN CGRM, SRO conducted series of surveys to get field level insights on certain issues:

1. May 2021 – Impact of Covid surge
2. Aug 2021 – Survey on household income, pricing, debt serviceability and choice
3. Dec 2021 – Views on centre meetings

## Customer Awareness Initiatives

1. Brief guide for customer's awareness on the new 'Regulatory Framework of Microfinance loans, 2022' to familiarize microfinance customers on the new regulations.
2. Poster carrying crisp information around the harmonized regulations for the customers and the branch staff to understand the concepts of household, microfinance client, maximum loan limit and credit assessment.
3. Eight short-recorded important messages in nine vernacular languages for the microfinance customer were released.

## Revision of Industry Code of Conduct

The Harmonized Regulations necessitated a revision of the Industry Code of Conduct for the microfinance industry for ensuring Responsible Lending. The code by the SRO has consequently been revised and released.

## Annex-C

# Microfinance in news

### The RBI releases the Consultative Document (CD) on Regulation of Microfinance

The discussion paper intended to facilitate a review of the applicable regulatory framework for microfinance and to address concerns related to over-indebtedness of borrowers besides enabling a market mechanism to bring down interest rates. It was acknowledged that the proposals in the consultation paper indicated RBI's intent of upholding and acknowledging the relevance of NBFC-MFIs and giving them a level playing field in the financial system.

<https://www.moneycontrol.com/news/opinion/rbis-consultative-document-is-an-attempt-to-level-the-playing-field-in-the-microfinance-sector-7102661.html>

<https://www.financialexpress.com/industry/rbi-proposes-uniform-regulatory-framework-for-microfinance-sector/2271362/>

<https://indianexpress.com/article/business/banking-and-finance/mfi-framework-plan-rbi-for-limit-on-repayment-terms-no-rate-cap-7359314/>



GUEST COLUMN  
Arun Mittal

### Regulations key to orderly growth of microfinance

Microfinance should be treated as a distinct sector in the financial system, and not just as a subset of the banking system. In the past, microfinance has been treated as a subset of the banking system, and this has led to a number of regulatory challenges. The RBI's new regulatory framework for microfinance is a step in the right direction. It is a welcome move, and it is hoped that it will lead to a more orderly growth of the sector.

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## Level field in microfinance

BY STAFF REPORTER

Deloitte, from bank microfinance companies (NBFC-MFI), which constitute 8.8 per cent of the overall microfinance credit portfolio, expect a level playing field with banks and small finance banks at the proposed changes under the consultative document on regulation of microfinance released by the RBI last week.

With no cap on interest rates, agencies and firms are number of lenders are given a fair chance to compete for the same. The RBI's new regulatory framework for microfinance is a step in the right direction. It is a welcome move, and it is hoped that it will lead to a more orderly growth of the sector.

**A SHOT IN THE ARM**

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## Deregulation of rates for NBFC-MFIs may lead to expansion of market

BY STAFF REPORTER

The Reserve Bank of India (RBI) has released a consultative document on regulation of microfinance, which is expected to lead to a more orderly growth of the sector. The RBI's new regulatory framework for microfinance is a step in the right direction. It is a welcome move, and it is hoped that it will lead to a more orderly growth of the sector.

**A SNAPSHOT OF THE MICROFINANCE SECTOR**

Category	Assets (₹)	Liabilities (₹)	Net Worth (₹)
Microfinance	1,00,000	80,000	20,000
Bank	5,00,000	4,50,000	50,000
Small Finance Bank	1,00,000	80,000	20,000
Other NBFC	1,00,000	80,000	20,000

The RBI's new regulatory framework for microfinance is a step in the right direction. It is a welcome move, and it is hoped that it will lead to a more orderly growth of the sector.

## Credit Guarantee Scheme Launched for MFIs

Understanding the criticality of Microfinance for the low-income households, the Government of India, on June 28, 2021, through the Ministry of Finance, Department of Financial Services formulated the Credit Guarantee Scheme for MFIs to provide 75% guarantee to scheduled commercial banks for loans to NBFC-MFIs for on-lending up to Rs 1.25 lakh to approximately 25 lakh small borrowers.

<https://www.financialexpress.com/economy/rs-7500-crore-credit-guarantee-scheme-for-mfis-to-lend-to-small-borrowers/2280098/>

<https://www.thehindubusinessline.com/economy/policy/in-a-boost-to-mfis-fm-hikesenhancing-eclgs-limit-by-15-lakh-cr/article35022843.ec>

<https://economictimes.indiatimes.com/news/economy/policy/nirmala-sitharaman-announces-eight-economic-relief-measures-among-others/articleshow/83916894.cms>

## MFIs welcome ₹7500-crore credit guarantee scheme

FE BUREAU  
Kolkata, June 28

**AS FINANCE MINISTER** Nirmala Sitharaman on Monday announced a ₹7,500-crore credit guarantee scheme for microfinance institutions (MFIs) as economic relief from the pandemic, microfinance players and industry bodies said the scheme would play a catalytic role in facilitating credit to MFIs and their customers as banks would have comfort to lend to the micro-lenders at reasonable rates during the present challenging times.

Village Financial Services MD & CEO Kuldip Maity said, "We welcome the initiative announced by the finance minister to facilitate loans to bottom of the pyramid borrowers through microfinance institutions. The move will benefit both the NBFC-MFIs and their borrowers in these tough times as the disbursements by MFIs have taken a hit because of cash flow issues, which eventually left borrowers in distress as they were unable to carry on their income-generating activities due to lack of funds."

MFNI CEO and director Alok Misra said the credit guarantee scheme to MFIs would play a catalytic role in facilitating credit to MFIs and their customers in these difficult times.

"Of special mention is the coverage of term loans from scheduled commercial banks to MFIs unlike only CPs/NCDs in last year's scheme, which will allow smaller MFIs to be covered. Other specific measures introduced in the scheme in terms of eligibility of standard customers, pricing directions, focus on new lending and guarantee up to 75% of default amount will ensure that scheme benefits the micro-finance customers in a substantive way."

## Microfinance sector rides on choppy waters with government support

Our dream of inclusive India will have to be predicated on the microfinance pillar; ignoring it will exacerbate societal disharmony



Alok Misra

When we started 2021, it was thought of as a year of recovery. The Covid scare had subsided and the global economy was beginning to show signs of recovery. However, the challenges ahead are more daunting than ever. The microfinance sector, which has been a pillar of inclusive growth, is facing unprecedented challenges. The government's support is crucial in these times of crisis.

The microfinance sector has been a pillar of inclusive growth. It has provided financial services to millions of people who were previously excluded from the formal financial system. The government's support is crucial in these times of crisis. The sector has shown resilience and is expected to continue to play a vital role in India's economic development.

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## MFIs guarantee may spur rural lending

ABHJIT LELE  
Mumbai, 28 June

The credit guarantee to facilitate micro loans announced by Finance Minister Nirmala Sitharaman on Monday is expected to improve liquidity for microfinance institutions (MFIs), especially smaller firms, and spur lending in rural areas from the second quarter (Q2) after very low volumes in Q1.

Alok Misra, chief executive officer and director, Microfinance Institution Network (MFNI), said the

scheme will cover term loans from banks to MFIs, unlike only commercial paper/non-conventible Debentures in last year's package. It will facilitate flow of funds, he said.

Guarantee will be provided to banks for loans to new or existing NBFC-MFIs or MFIs for on-lending up to ₹1.25 lakh to approximately 2.5 million small borrowers.

lion small borrowers. The guarantee will last till March 31, 2022, or till guarantees worth ₹7,500 crore are issued, whichever is earlier, according to the finance ministry presentation.

MFIs executives said the revision has bettered the scheme in three ways. First, tenure of loan has been extended to three years from 18 months.

Second, there is a cap on the interest rate charged by banks. Third, earlier institutions had to provide collateral upfront and did not get time to originate fresh loans. However, with the credit guarantee in place, MFIs will perhaps get three-four months to originate the portfolio and pledge it.

P. Satish, executive director, San Eban, a microfinance industry lobby group, said the combined borrowers base of NBFC-MFIs and non-profit MFIs is 48.1 million. There are 90 non-profit MFIs and the

tally of NBFC-MFIs is over 80. Small and medium-sized MFIs faced challenges in getting funds. With the credit guarantee, disbursements should start from MFIs in Q2, Satish said.

Sadaf Sayeed, CEO, Muthoot Microfin, said the scheme will encourage fresh lending from banks to MFIs and will address the fund starvation faced by the industry in the short term. MFIs can reach remote, rural areas. This will provide much needed impetus for credit growth in the rural economy.

## The Assam Government signs a memorandum of understanding (MoU) with 37 microfinance lenders

The Assam Government signed a memorandum of understanding (MoU) with 37 microfinance lenders for implementation of the Assam Microfinance Incentive and Relief Scheme (AMFIRS), 2021. The scheme was to provide incentive to clients who were regular in repayments and help overdue clients become regular, expecting to benefit more than 20 lakh women borrowers in the State.

<https://www.livemint.com/news/india/microfinance-lenders-assam-Government-sign-agreement-for-loan-waiver-11629867061446.html>

<https://www.businessworld.in/article/Assam-Govt-Signs-Pact-With-Microfinance-Firms-To-Waive-Loans-Of-Women-Borrowers/25-08-2021-401741/>

<https://m.economictimes.com/news/economy/policy/assam-Government-to-spend-rs-7200-crore-in-microfinance-loan-waiver/articleshow/85595691.cms>

**Assam Signs MoUs with Microfinance Institutions**

**Bikash Singh**@timesgroup.com

**Guwahati:** The Assam government has signed MoUs with microfinance institutions for the implementation of the Assam Micro Finance Incentive and Relief Scheme (AMFIRS), 2021, Assam chief minister Himanta Biswa Sarma said.

Around 11 lakh borrowers who are making regular payment against the loan will get ₹25,000 each. The state government would be required to spend close to ₹7,200 crore on the loan waiver.

Sarma said that the Assam government in its first cabinet meeting formed a committee under the chairmanship of housing and urban affairs minister Ashok Singhal to fulfil its election promise of waiving microfinance loan to provide succour to poor women who are not able to return the loan amount.

"Accordingly the Assam Micro Finance Incentive and Relief Scheme has been devised with an objective to balance long-term view of ensuring continuity of microfinance for supporting economic activities of low income and poor households in the state and providing relief to customers for tiding over current stress in the microfinance sector due to various operational reasons", the chief minister said.

Saying that up to June, 2021, there were 14 lakh microfinance borrowers in the state, the chief minister said that the new scheme would involve ₹12,000 crore credit portfolio, out of which the state government would be required to spend around ₹7,200 crore. The CM said that relief under the scheme shall be extended to all borrowers to the extent of loans from up to 9 lenders and for loan amounts of up to ₹1.25 lakh only. To become eligible for the scheme, concerned borrowers will have to fulfil eligibility or non-eligibility conditions as laid down in the guidelines.

**14 L**  
**NUMBER OF MICROFIN BORROWERS IN ASSAM**

**MFIs, Assam govt sign MoU for microfinance relief scheme**

**FE BUREAU**  
Kolkata, August 24

**THE ASSAM GOVERNMENT** on Tuesday signed a memorandum of understanding (MoU) with microfinance lenders for implementation of the microfinance relief scheme for the microloan borrowers in the state.

Chief minister Himanta Biswa Sarma on June 18 announced the special relief for microfinance customers and shared the broad contours of the scheme.

Speaking on the MoU signing occasion in Guwahati on Tuesday, Sarma said the scheme, Assam Micro Finance Incentive and Relief Scheme (AMFIRS), 2021, would involve ₹12,000-crore credit portfolio, of which the state government would be required to expend around ₹7,200 crore.

There were 14 lakh microfinance borrowers in the state up to June, 2021, he informed, according to a release issued by the Chief Minister's Public Relations Cell. "Assam Micro Finance Incentive and Relief Scheme has been devised with an objective to balance long-term view of ensuring continuity of microfinance for supporting economic activities of low income and poor households in the state and providing relief to eligible customers for tiding over current stress in the microfinance sector due to various operational reasons," the chief minister said.

## Assam govt signs pact with MFI, banks to waive loans of women

**GUWAHATI, DHNS:** The BJP-led government in Assam signed an MoU on Tuesday with Micro Finance Institutions (MFI) and banks to waive off loans taken by economically weaker women in the state.

Before the Assembly elections held in March-April, BJP had promised that microfinance loans taken by women lenders would be waived if it was elected again to power. After winning the elections for the second time, the government led by Sarma formed a Cabinet committee headed by Cabinet minister Ashok Singhal to take forward the scheme with discussion with the micro credit institutions operating in the state.

Talking about the scheme, CM Himanta Biswa Sarma said an estimated Rs 12,000 crores are likely to be spent by the government, the MFIs and banks for the loan waiver scheme. The state's expenditure is likely to be around Rs 7,200 crores, he said.

## Complete utilisation of the Credit Guarantee Scheme, Rs 7,500 crore disbursed

In September 2021, the Ministry of Finance stated that within 75 days of the announcement of the scheme, the Banks had fully utilized the Rs 7,500 crores to benefit the 'smallest of the borrowers.' As many as 92 NBFC-MFI got support through 20 lenders with the scheme playing a catalytic role in facilitating credit to the bottom of the pyramid borrowers in difficult times.

[https://www.business-standard.com/article/finance/banks-disburse-rs-7-500-cr-under-credit-guarantee-scheme-for-microfinancing-121092900932\\_1.html](https://www.business-standard.com/article/finance/banks-disburse-rs-7-500-cr-under-credit-guarantee-scheme-for-microfinancing-121092900932_1.html)

<https://www.newindianexpress.com/business/2021/sep/29/banks-disburse-rs-7500-crore-under-credit-guarantee-scheme-for-microfinance-institutions-2365399.html>

<https://www.businesstoday.in/industry/banks/story/banks-disburse-rs-7500-cr-under-credit-guarantee-scheme-for-mfis-308040-2021-09-30>

### Loan guarantee till FY22 end; MFI scheme used up in 75 days

FE BUREAU  
New Delhi, September 29

THE GOVERNMENT ON Wednesday extended the validity of its ₹4.5-lakh-crore guaranteed loan scheme for companies and individuals by six months through March 2022 or until the limit is used up, whichever is earlier.

It also expanded the scope of the Emergency Credit Line Guarantee Scheme (ECLGS) to benefit a larger number of Covid-hit businesses ahead of the festival season and expedite the pace of offtake that has slowed of late, following a strong response in the initial months of its launch last year. As of September 24, loans sanctioned under various avatars of the scheme (ECLGS 1.0, 2.0 and 3.0) to about 1.15 crore businesses stood at ₹2.86 lakh crore, the finance ministry said.

About 95% of the guarantees issued are for loans sanctioned to micro, small and medium enterprises.

As per the latest decision, existing borrowers under the ECLGS 1.0 and 2.0 would qualify for additional credit support of up to 10% of the total outstanding loan as of February 29, 2020, or March 31, 2021, whichever is higher.

Businesses that have not received assistance under the scheme (ECLGS 1.0 or 2.0) can avail credit support up to 30% of their outstanding credit as of March 31, 2021.

Similarly, businesses in the severely hit sectors specified under the ECLGS 3.0, who have not tapped the ECLGS, can now avail of credit support up to 40% of their credit outstanding as of March 31, 2021, subject to a maximum limit of ₹200 crore per borrower.

Incremental credit can also



be availed within these limits by existing ECLGS borrowers, whose eligibility rose because of the change in cut-off date to March 31, 2021 from February 29, 2020.

Accordingly, borrowers who have already received assistance under the scheme and whose credit outstanding as of March 31, 2021 (excluding support under ECLGS) is higher than the level on February 29, 2020 will be eligible for incremental support within the cap stipulated under ECLGS 1.0, 2.0 or 3.0, the ministry said.

While sanctions under the scheme would have to be granted within the March 2022 deadline, the last date of disbursement has also been extended by six months through June 2022.

As part of its stimulus package, the Centre had on June 28 enhanced the limit of loans under the ECLGS by ₹1.5 lakh crore from the initial target of ₹3 lakh crore to soften the second Covid wave blow.

The ECLGS 1.0 was announced as part of the government's ₹21-lakh-crore relief package in May 2020. The loans were meant to support borrowers in meeting

their operational liabilities and restarting their businesses following Covid-induced disruptions.

Under this, the government had pledged full guarantee for up to 20% extra, collateral-free working capital loans, subject to the ₹3-lakh-crore limit. While this scheme was originally meant for only MSMEs, the government has periodically broadened its scope to enable a large number of businesses and professionals to benefit from it.

#### ₹7,500-cr scheme for MFI used up in 75 days

The finance ministry also said its ₹7,500-crore credit guarantee scheme, announced on June 28, to facilitate concessional loans to an estimated 25 lakh small borrowers through micro-finance institutions (MFIs) is fully utilised within 75 days.

The scheme extended the support through 92 NBFC-MFIs/MFIs through 20 lenders. The government offers guarantee to banks for extending loans to the MFIs for on-lending up to ₹1.25 lakh to each borrower, which is aimed at boosting consumption at the grassroots level.

### Banks disburse ₹7,500 crore under credit guarantee scheme for MFIs

**New Delhi:** Banks have fully utilized ₹7,500 crore under the credit guarantee scheme for micro finance institutions (MFIs) to benefit the smallest of the borrowers, the finance ministry said on Wednesday. The scheme was announced by finance minister Nirmala Sitharaman in June as part of a ₹6.29 trillion package to provide relief to various sectors affected by the second wave of the covid-19 pandemic. **PTI**

### Microfin firms raise Rs 7,500 crore under credit guarantee scheme

Banks have fully utilised Rs 7,500 crore under the Credit Guarantee Scheme for Micro Finance Institutions (MFIs) to benefit the smallest of the borrowers, the finance ministry said on Wednesday. The scheme was announced by Finance Minister Nirmala Sitharaman in June as part of a Rs 6.29 lakh crore package to provide relief to various sectors affected by the second wave of the COVID-19 pandemic. Loans from banks are capped at the marginal cost of funds based lending rate (MCLR) plus 2 per cent. About 80 per cent of assistance is to be used by MFIs for incremental lending.

## Assam Government holds cheque distribution programme for Microfinance Borrowers

To provide a one-time relief to Assam's Microfinance borrowers under the special Assam Microfinance Incentive and Relief Scheme (AMFIRS), 2021, the Assam Government held a cheque distribution ceremony in November 2021. The first phase of the scheme, meant to reward good credit behaviour, included over 10 lakh customers who had been regular in loan repayments. The Government's spending on incentivizing them would be around Rs 2000 crore, said media reports. The Government will also pay the overdue of delinquent customers to make them regular and clear the loan outstanding for really stressed customers impacted by the pandemic.

<https://www.financialexpress.com/economy/assam-govt-to-roll-out-microfinance-relief-scheme-distribute-cheques-among-borrowers/2377453/>

<https://www.indiatoday.in/india/story/assam-Government-microfinance-loan-waiver-scheme-relief-women-1881906-2021-11-29>

<https://www.newindianexpress.com/nation/2021/nov/28/assam-Government-rolls-out-microfinance-loan-waiver-scheme-for-24-lakh-women-2389254.html>

### Assam launches microfinance incentive & relief scheme

STATESMAN NEWS SERVICE  
GUWAHATI, 29 NOVEMBER

Assam micro finance incentive & relief scheme 2021 was inaugurated by chief minister Himanta Biswa Sarma on Sunday at a program held in Tezpur, where he ceremonially distributed cheques to five beneficiaries.

The scheme is expected to benefit a total of 24 lakh women in Assam, while 59,468 women beneficiaries would receive reliefs amounting up to rupees 25,000 each in Sonitpur district. CM Sarma inaugurated the first phase of it to those borrowers who were repaying regularly.

They will be provided one-time incentive rupees upto 25,000 (or outstanding balance whichever is less) so that they can maintain good credit disciplines. Total 11 lakh women would benefit during this phase of the scheme.

By this month, benefi-

ciaries of eight districts namely Sonitpur, Charaideo, Sivasagar, Jorhat, Majuli, Golaghat, West Karbi Anglong and Dima Hasao will be provided their due incentives through account payee cheques. In the second phase, relief would be provided to borrowers whose payments are overdue by 1-69 days. The government will pay the overdue amounts. In the third phase, borrowers who are stressed and destitute will be covered.

Sharma reiterated that the government would fulfill its election promise of microfinance loan relief within six months.

He also added that the promise of one lakh jobs would also be fulfilled by 10 May next year. Moreover, every poor household in Assam would be brought under the ambit of Arunday scheme and 5000 additional beneficiaries would be identified in every constituency.

### Assam govt to roll out microfinance relief scheme, distribute cheques among borrowers

MITHUN DASGUPTA  
Kolkata, November 27

THE ASSAM GOVERNMENT will begin distributing cheques to the segment of the state's microfinance customers, who were regular in loan repayments, from Sunday to provide them incentives under the mega microfinance relief scheme announced earlier this year. Over 10 lakh borrowers fall under this segment and the government's spending on incentivising them would be around ₹2000 crore.

To start with, the Himanta Biswa Sarma-led government is scheduled to roll out the special one-time relief in a three-day event commencing on November 28. This will be the first phase of the cheque distribution programme. After the special relief was announced on June 18, the government signed a memorandum of understanding (MoU) with microfinance lenders for the implementation of the scheme in August.

"From November 28, the government will start distributing cheques to the Category 1 customers, who were regular in repayments without any dues as of March 31, 2021. Each customer will receive a sum of ₹25,000 or outstanding whichever is lower as an incen-



Manoj Nambiar, MD of Arohan Financial Services

tive to them to continue maintaining good credit discipline. Over 10 lakh customers will get this benefit, and roughly ₹2000 crore is what the government's payout for this category," Manoj Nambiar, MD, Arohan Financial Services, told FE. As per the broad contours of the special relief, the government will also pay the overdue of delinquent customers to make them regular and clear the loan outstanding for really stressed customers impacted by the pandemic. Speaking on the MoU signing occasion in Guwahati in August, Sarma had said the scheme, Assam Micro Finance Incentive and Relief Scheme (AMFIRS), 2021, would involve ₹12,000 crore credit portfolio, out of which the state government would be required to expend around ₹2,000 crore.

"The customers, who were regular in repayments, are being singled out first so that the

The three-day event commencing on November 28 will be the first phase of the cheque distribution programme

incentive and the rewards go first rather than relief for the delinquent customers. These customers have been regular and they have kept the name of the state high by their behavior. That is why the chief minister and the government are prioritising them initially," Nambiar, who is a part of the lenders' steering committee, pointed out. After distributing cheques to all the Category 1 customers, the government will start the process of providing relief to the delinquent customers (Category 2 customers, whose loan did not turn NPA (non-performing asset) as of March 31, 2021. And, finally the relief will be provided to the customers (Category 3) for whom loans had turned NPA as of the cut-off date. "For the category 2 customers we have some rough estimates based on the programme is made. But that is a field-based exercise where applications are to be created and after verification given to the district collectors for processing. I think the number of

customers should be around four lakhs in this category. For them the government is going to pay the overdue as of March 31 so that the customers can be brought back to being regular," Nambiar said. Total borrowers in Assam are around 27 lakhs, while relief scheme seems to cover around 24 lakhs of customers. After the special relief announced in June, lenders had welcomed it as one-time relief to the stressed customers and not a debt waiver. Industry body MFIN said the scheme will ensure continuity of microfinance activities of low-income households in Assam while providing immediate relief to eligible customers for tidying over current stress in the microfinance sector further accentuated by Covid-19 pandemic. According to Nambiar, overall collection efficiency in the state for micro-lenders rose to over 70% in the month of October from as low as around 30% at the peak of the pandemic crisis during May-June this year. "It has to go up to 98-99%," Nambiar added.

As we are working with the government, our focus is to ensure that we are able to meet the collection efficiency to 80% and 90-95% in the third and fourth quarters, respectively," Nambiar added.

## Digital picks up; Hybrid Models for collections take off in view of COVID 19

Covid 19 was also an eye opener for the Microfinance institutions that had heavy dependence on physical collections of loan repayments. Lenders started to put in place hybrid models; a combination of physical and digital modes of collections to avoid disruptions in the process. Lenders began tying up with fintech players and payment gateway companies to digitise some aspects of the collection process. The primary objective being to ensure that repayments were not hurt when group meetings could not be held, or loan officers could not go for collections.

<https://www.financialexpress.com/industry/banking-finance/microfinance-institutions-look-at-new-ways-to-boost-collections/2314099/>

<https://www.outlookindia.com/website/story/business-news-financial-inclusion-will-continue-to-be-a-key-focus-in-2022/407708>

<https://www.fortuneindia.com/macro/upi-surges-now-51-of-digital-transactions-in-india/106290>

## MFIN launches the Indian Microfinance Review

In November 2021, MFIN launched a special report presenting a snapshot of the Microfinance sector, its regulatory environment, performance during the tough financial year and developments including continued customer focus and changing market dynamics. The report was unveiled in Mumbai by Mr Sivasubramanian Ramann, Chairman & Managing Director, Small Industries Development Bank of India (SIDBI), amidst an august gathering comprising microfinance providers, investors and analysts, regulators, among others.

<https://bfsi.eletsonline.com/mfin-launches-india-microfinance-review-fy-20-21/>

## RBI releases Master Guidelines: The Regulatory Framework for Microfinance Loans Directions, 2022

Hailed as 'progressive' and 'a big leap forward' for the Microfinance industry, it is believed that with these policy changes, the client outreach will expand to 100 million in next 3-4 years, bringing a significant number of new-to-credit customers to formal finance. The guidelines defined a microfinance loan, the household and introduced household income assessment, loan repayment obligations of a household, and pricing.

<https://economictimes.indiatimes.com/industry/banking/finance/rbi-removes-lending-rate-cap-on-nbfc-mfis-changes-microfinance-definition/articleshow/90199644.cms?from=mdr>

<https://www.livemint.com/industry/banking/rbi-removes-pricing-caps-for-microfinance-lenders-11647285373311.html>

[https://www.business-standard.com/article/finance/mfis-welcome-rbi-s-regulatory-framework-for-microfinance-loans-122031401235\\_1.html](https://www.business-standard.com/article/finance/mfis-welcome-rbi-s-regulatory-framework-for-microfinance-loans-122031401235_1.html)

## A new era for microfinancing



**ALOK MISRA**

CEO and founder  
MFIA, the industry association for  
microfinance and NBFCs  
and MFIA's regulatory  
organisation

The new RBI guidelines move regulation from a micro-business-rules approach to a principles-based one and plug regulatory gaps by making the framework applicable to all regulated entities

**GLOBAL DEVELOPMENT LITERATURE** is replete with the crucial connection between microfinance (MF) and socio-economic development. All for low-income clients, poverty economic and social uplift and leads to building an inclusive society where the rising tide truly lifts all boats. India's development policy has always been predicated on this premise and microfinance has been the pillar of policy framework since the early 90s. A recent study by NCAER, commissioned by MFIA, found that microfinance in India contributes 2.0% to the Gross Value Added (GVA) and contributes 12.8 million jobs per year. This is a tremendous contribution in local level job creation, economic growth and socio-economic uplift. It is also a key driver in checking urban migration.

Microfinance has undergone significant changes in the last decade. The main reason for this change is the bank from NBFC-MFIs, right when NBFC-MFIs were small finance and micro-finance banks, and NBFC also were dominant in the microfinance market. While these changes increased competition, the regulatory framework crafted in 2011 focused on NBFC-MFIs created arbitrage among different legal entities. Why so? It is because the 2011 policy was formulated when NBFC-MFIs were almost the sole purveyors of micro-finance. With the emergence of different legal entities, the regulations covered only 35% of the microfinance market. Various guidelines like large household income limit, loan limits, indebtedness level, and pricing caps applied only to NBFC-MFIs. This created an apparent arbitrage as different clients being served across different legal entities and field offices came to fore. Realising the potential of collateral arbitrage, the industry came together and formulated a

Code for Responsible Lending (CRL) in 2017, which brought some basic discipline across lenders. It is creditworthy that different lenders like banks and NBFCs voluntarily accepted to comply with CRL norms. However, as regulatory implementation has been, with some players remaining on, hot spots like loan concentration to emerge. Thus, while CRL was a novel initiative by the microfinance sector to deal with the changed ecosystem, a regulatory review was due. It was mainly in the case when the RBI Governor announced in January 2021 that RBI will come out with a document paper on harmonised regulation for microfinance.

This first draft on March 14, 2021, with the issue of harmonised guidelines applicable to all regulated entities (REs).

The new regulatory framework covers the revision of RBI - client centricity and a level playing field. It is being based on a part-banking and will rather be a part chapter for financial inclusion in the country. This is a significant regulatory step in making applicable the framework on all REs. Regulatory parity across diverse legal forms like banks, NBFCs, or MFIs, underlines the focus on clients and moves the sector towards "asset class" based regulation over "legal form" based regulation. This is a policy change, and will benefit low-income clients. Second, RBI has moved from micro-business rules to a principles-based approach in regulating the sector - a very prudent approach signifying the maturity of microfinance in India.

Let us examine the specific changes. Under the 2011 policy applicable only to NBFC-MFIs, the regulation prescribed an annual income limit of ₹1,60,000 and ₹200,000 for rural and urban households

respectively. RBI has revised this to ₹200,000 and done away with rural-urban distinction. This will enable micro-finance players to cover the "middle" segment which gets lost between the microfinance market and the typical banking customer as well as retain the loan-ownership. This is a positive step because interlinkage and migration often make the rural urban regulatory distinction. RBI's intent of ensuring that clients are served prudently and are not lobbied beyond their repayment capacity is implicit in the concept of Client Obligation to Income Ratio (COIR). This means the overall capacity to service must not be exceeded beyond their repayment capacity of having it. A number of lenders and loan amount and ensure that a household's repayment obligation does not exceed 15% of its income and this is an over limit.

Ignoring these historic changes, the financial inclusion policy on pricing of loans for NBFC-MFIs, lending rate-differential (as per 1991) and the pricing cap formula only applied to 15% of the microfinance market. The new policy stipulates that all REs will have to follow a board approved policy on pricing, which will be subject to regulator scrutiny and clients have to be given a fact sheet disclosing all the components of APR. The flexibility in pricing will spur innovation, increase MFIs to serve low-income clients and bring transparency in lending rates. At present, across REs, 33.7 million low-income clients are being provided small-scale credit services across 632 districts with a Gross Loan Portfolio of ₹2.56 trillion as of December 31, 2021. It is expected that with these policy changes, the client outreach will expand to 350 million in next 3-4 years, bringing a significant number of new low-income clients to formal finance. With RBI law regulatory in part, it is the industry now to reform policy and build an inclusive India on its reach towards low-

## CHANGE IN MICROFINANCE DEFINITION RBI drops interest rate ceiling on micro loans

Industry says new norms to safeguard interests of borrowers, deepen micro credit reach

SHRITAMA BOSE & HITHUN DASGUPTA  
Mumbai/Kolkata, March 14

THE RESERVE BANK OF India (RBI) on Monday released a revised framework for micro-finance loans, putting an end to regulated interest rates in the segment and harmonising micro-lending norms across banks and non-bank lenders.

The regulator also standardised the definition of micro-finance loans, stating that all collateral-free loans, irrespective of end use and mode of application, processing and disbursement, provided to households with an annual income up to ₹3 lakh shall be considered as micro-finance loans. The latest framework is based on a consultation paper released by the RBI in June 2021.

Microfinance lenders shall now have to put in place a board-approved policy regarding pricing of loans which shall cover, among other things, a well-documented interest rate

All collateral-free loans to households with annual income up to ₹3 lakh to be micro loans

Monthly loan obligations of a household to not exceed 50% of the monthly household income

Lenders must define board-approved policies regarding pricing of micro loans

Minimum requirement of micro-loans stands revised to 75% of total assets from 85% earlier

Put in well-documented interest rate model to arrive at interest rate

Outsourcing of any activity by lenders does not diminish their obligations

Onus of compliance shall rest solely with lenders now

Onus of compliance shall rest solely with lenders now

model or approach for arriving at the all-inclusive interest rate. The new framework states that the monthly loan obligations of a household shall not exceed 50% of their monthly household income. Each lender will now be required to have a board-approved policy regarding the limit on the outflows towards debt repayment as a share of monthly household income. Chandra Shekhar Ghosh, MD & CEO, Bandhan Bank, said the new norms will help

deepen the penetration of micro credit in India by encouraging competition. "The latest guidelines are a strong reflection of the maturity that the microcredit industry has reached in India; and it will help harmonise the regulatory framework for different types of lenders, encourage healthy competition and enable customers to make an informed choice regarding their credit needs," he said.

Continued on Page 13

### FROM THE FRONT PAGE

## RBI drops interest rate ceiling on micro loans

Manoj Kumar Nambiar, MD, Arohan Financial Services, said that the decision to apply the rule of a 50% fixed obligation to income ratio uniformly to all categories of borrowers will reduce the pressure on them, and lead to lower delinquencies and provisions for the industry. NBFC-MFIs account for about 31% of the outstanding micro-finance portfolio in the country. Many of them have for long held banks responsible for lending excessively to bottom-of-the-pyramid borrowers and thereby, reducing their ability to repay all their lenders.

NBFC-MFIs will now be allowed to have non-micro-finance loans account for 25% of their portfolios, against 15% earlier. This will enable them to diversify their loan portfolios, industry executives said. Udaya Kumar Hebbar, MD & CEO, CreditAccess Grameen, said, "Increasing the qualifying asset limit to a maximum of 25% will

allow institutions to achieve a more balanced lending portfolio, reduce the cyclicality and volatility impact on the balance sheet, and strengthen the ability of institutions to weather any external risks."

Alok Misra, CEO & director at industry association MFIA, said that besides creating a level-playing field, the framework will address issues of over-indebtedness and multiple lending which were major concerns for the sector. "Revision of household income is a very progressive move with far-reaching implications as more needy, low-income households will now come into the purview of accessible credit, taking us closer to our financial inclusion goal," he said.

Lenders will be barred from charging pre-payment penalties on micro-finance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount, the master directions said.

"The guidelines are path-breaking and mark a paradigm shift in the way the micro-finance business is done," Nambiar said, adding, "The credit

harmonisation guidelines between all micro lenders - banks and NBFCs - is an important step. Being allowed to charge preferential rates will allow us to offer better pricing to our better customers." Nambiar expects the new measures to help the industry shake off the impact of the pandemic and to treble its ₹2.45-trillion portfolio over the next four-five years.

The norms lay down specific pointers with regard to recovery of loans and place the onus of complying with them squarely on the lender, even with respect to outsourced activities. Recoveries shall be made at a designated place decided mutually by the borrower and the lender. However, field staff shall be allowed to make recoveries at the place of residence or work of the borrower if the borrower fails to appear at the designated place on two or more successive occasions. The framework specifically prohibits the harsh recovery practice, including the use of threatening or abusive language and calling the borrower before 9:00 a.m. and after 6:00 p.m.

The framework states that 'not-for-profit' companies

engaged in microfinance activities that have an asset size of ₹100 crore and above must register as NBFC-MFIs and send in applications for the same within three months from the date of the circular. K Paul Thomas, MD & CEO, ESAF Small Finance Bank said, "Bringing ₹100 crore-plus not-for-profit companies on par with other players will bridge the regulatory gaps." With this move, the RBI has taken a holistic approach to regulate the sector irrespective of legal status or mode of operations, he added. According to Kuldeep Maity, MD & CEO, Village Financial Services (VFS), the common regulatory framework creates a level-playing field and now both borrowers and lenders will have options. It will also improve lending in the sector as well as safeguard the interests of the borrowers. "Revision in the household income is another important move, which will allow MFIs to cater to more needy borrowers. We also welcome the move to relax the Qualifying Assets Criteria to 75% from 85% earlier. This will allow MFIs to diversify their portfolio," Maity added.

## MFIN and NCAER Report captures contribution of the Microfinance Sector to the economy

In February 2022, MFIN and NCAER jointly published 'Present and Potential Contribution of Microfinance to India's Economy'. The Report was launched by Dr Rajiv Kumar, Vice Chairman, Niti Aayog, capturing the income or 'Gross Value Added', a measure of the national economic output and employment. As per findings, during 2018-19, the contribution of microfinance sector as a whole, to India's GVA was 2.03%. On the employment front, the sector created about 1.28 crore jobs as a whole and 38.54 lakh jobs by the NBFC-MFIs alone, a significant contribution to the generation of employment.

<https://economictimes.indiatimes.com/industry/banking/finance/microfinances-contribution-to-indias-gva-likely-to-grow-says-ncaer/articleshow/89947814.cms?from=mdr>

<https://timesofindia.indiatimes.com/microfinance-sectors-contribution-to-gva-to-be-2-7-3-5pc-by-2025-26-study/articleshow/89971971.cms>

<https://www.cnbctv18.com/finance/microfinance-sectors-contribution-to-gva-to-be-27-35-by-2025-26-study-12691362.htm>

**'Microfinance Contributed 2% of GVA in 2018-19'**  
The sector, including bank-promoted self-help groups, generated 13 m jobs; MFIN-NCAER study

**Our Review**  
Kolkata: The microfinance sector contributed about 2% of India's gross value added (GVA), the productivity metric for the economy, while the overall contribution of the microfinance sector was about 5.5% in 2018-19, according to a study by the National Council of Applied Economic Research (NCAER). The sector's assets, including bank-promoted self-help groups, amounted to about 1.28 crore jobs.

**Economic Significance**  
As per MFIN-NCAER report, contribution of sector to India's GVA was 2.03% in 2018-19. At least 2% of microfinance borrowers are in a position to serve loans following disruptions due to pandemic.

**Projected Contribution of Microfinance to GVA by 2025-26**  
Base case scenario: 2.7%  
Best case: 3.5%  
Worst case: 1.54%

**Importance in achieving economic growth:** It said, "The findings point to the risk factors for the sector in the medium term prospects as a result of lower overall economic growth. The implication for the sector is clearly to enhance its effectiveness in making the economy productive in the borrower's hands so that the planter loan can be extended or improved, larger loans could be provided, and opportunities for diversification of its portfolio are explored." NCAER said.

**The study on the impact of microfinance on the economy:** The study was conducted by the Microfinance Institutions Network (MFIN), was published Wednesday by Niti Aayog Vice Chairman Rajiv Kumar. The report was made a year back, but the time was disrupted due to the pandemic and disruptions, according to MFIN.

## सकल मूल्य वर्धन में 2025-26 तक माइक्रोफाइनेंस क्षेत्र का 3.5 प्रतिशत तक होगा योगदान



अर्थव्यवस्था के सकल मूल्य वर्धन (जीवीए) में छोटी चर्षि के कर्च देने वाले वित्तीय संस्थानों (माइक्रोफाइनेंस) का प्रभाव 2025-26 तक 2.7 से 3.5 प्रतिशत के बीच रहने की उम्मीद है। माइक्रो फाइनेंस संस्थाओं के संघ एमएफआईएन और शोध संस्थान नेशनल काउंसिल ऑफ एप्लाइड इकोनॉमिक रिसर्च (एनसीईआर) द्वारा संयुक्त रूप से तैयार रिपोर्ट भारत की अर्थव्यवस्था में माइक्रोफाइनेंस का वर्तमान और संभावित योगदान में माइक्रोफाइनेंस क्षेत्र के योगदान का विश्लेषण किया गया है। यह विश्लेषण आय या सकल मूल्य वर्धन में योगदान के रूप में किया गया, जो राष्ट्रीय आर्थिक उत्पादन और वेजगार को मापता है। एमएफआईएन-एनसीईआर की रिपोर्ट के मुताबिक 2018-19 के दौरान भारत के जीवीए में माइक्रोफाइनेंस क्षेत्र का योगदान 2.03 प्रतिशत था। रिपोर्ट में कहा गया कि 2025-26 तक कुल जीवीए में माइक्रोफाइनेंस क्षेत्र का अनुमानित योगदान कम से कम 2.7 प्रतिशत और अधिकतम स्थिति में लगभग 3.5 प्रतिशत होगा। एमएफआईएन के सीईओ और निदेशक अरतो मिश्रा ने कहा, हालांकि, माइक्रोफाइनेंस वित्तीय क्षेत्र का केवल एक छोटा सा हिस्सा है, लेकिन इस क्षेत्र से लगभग 1.28 करोड़ वेजगार सृजित होते हैं, जबकि एनबीएफसी-एमएफआई द्वारा 38.54 लाख नौकरियां दी जाती हैं। एनसीईआर की महानिदेशक पूनम गुप्ता ने कहा, माइक्रोफाइनेंस कम आय वाले परिवारों की जरूरतों को पूरा करने के लिए एक प्रमुख साधन के रूप में उभर रहा है।

## MFIN, NCAER launch special report

**NEW DELHI:** MFIN, the Association for microfinance entities and a Self-Regulatory Organisation Wednesday launched 'Present and Potential Contribution of Microfinance to India's Economy', along with NCAER, the National Council of Applied Economic Research. The report was released by Dr Rajiv Kumar, Vice Chairman, NITI Aayog amidst an august gathering comprising microfinance providers, investors and analysts, regulators, among others, on a virtual platform.

Speaking at the launch, Dr Rajiv Kumar, Vice Chairman, Niti Aayog said, "I complement both MFIN and NCAER for bringing out a report that captures the contribution of the Microfinance sector on GVA and employment rather well. At the same time, I feel there could be some learnings for others in the way the model operates where the industry



has managed to keep NPAs low despite the Covid impact." Vice Chairman also suggested that MFIN should take up a study documenting the impact of microfinance on women empowerment.

Dr Alok Misra, CEO & Director said, "This study presents an analysis of its contribution to the overall economy in terms of income or 'Gross Value Added', a measure of the national economic output and employment. Though the sector accounts for only a small part of the financial sector, the employment created is estimated to be about 1.28 crore jobs by the sector as a whole and 38.54 lakh jobs by the NBFC-MFIs alone, a significant contribution to the generation of employment."

The MFIN-NCAER report points that during 2018-19, the contribution of microfinance sector as a whole, to India's GVA was 2.03%. The projected contributions of the microfinance sector to overall GVA, including the backward & forward linkages by 2025-26 would be a significant 2.7% in the base case scenario and nearly 3.5% in best case scenario.

## Funding into the Microfinance Sector Grows

Funding into India's Microfinance sector grew with institutional investors turning bullish as the sector regained its stability since the outbreak of Covid 19 with higher loan disbursement as well as repayment collection from the borrowers. Total equity for NBFC-MFIs rose 12.2% year on year to Rs 19,139 crores at the end of September 2021 said Micrometer, an MFIN report. Reports said that in one of the largest equity financing in the Indian Microfinance sector since 2019, Muthoot Microfin Ltd had secured \$50 million investment from Greater Pacific Capital, which would be deployed in financial inclusion. The second quarter saw a total of Rs 14,389 crore in debt funding which was 47% higher than the year ago.

<https://economictimes.indiatimes.com/industry/banking/finance/funding-into-nbfc-mfis-grow-as-the-sector-bounces-back/articleshow/88300062.cms>

<https://www.financialexpress.com/industry/banking-finance/microfinance-loan-portfolio-grows-5-16-in-1fy22-mfin/2380966/>

<https://economictimes.indiatimes.com/markets/stocks/news/uks-cdc-group-invests-rs-320-crore-in-pooled-bonds-of-six-indian-mfis/articleshow/81771900.cms?from=mdr>

### Equity flows rose 12.2% y-o-y mainly via private placements, debt funding grew 47%

# Fund Infusion into Microfin Cos Rises in Q2 as Business Improves

**Our Bureau**  
Kolkata: Funding into India's microfinance sector grew with institutional investors turning bullish as the sector regained its stability since the outbreak of Covid-19 with higher loan disbursements as well as repayment collections from the borrowers. Total equity for NBFC-MFIs rose 12.2% year on year to ₹19,139 crore at the end of September, the Microfinance Institutions Network (MFIN) said. The sector witnessed stable equity investments in some top NBFC-MFIs in the second quarter onwards, which reiterates the viability and resilience of the microfinance business model, MFIN chief executive Anil Mishra said. While these lenders were conducting raising equity through private placements, they did not tap the w-

#### Microfin Industry as of Sept 2021-end

**₹5.65 crore** unique borrowers get loans  
**Total gross loan portfolio for the sector at ₹2,43,737 cr**  
**Banks hold the largest share of loans with 41.5%**  
Source: MFIN



(NBFC-MFIs) underwrote 17.6% of the total borrowing, with development financial institutions providing 1%. External commercial borrowing was just about 1.3% of the total borrowing during the second quarter. NBFC-MFIs' cumulative outstanding borrowing stood at ₹60,522 crore. The aggregate gross loan portfolio of NBFC-MFIs stood at ₹2,43,737 crore, including the on-balance sheet portfolio of ₹17,089 crore. These lenders, which control 34% of the microfinance market, disbursed ₹19,872 crore in the second quarter, compared to ₹8,155 crore disbursed in the year-ago period. The portfolio of the entire microfinance universe which includes banks, small finance banks and other NBFCs rose 5.2% year on year to ₹2.44 lakh crore, MFIN data showed. The average collection efficiency has also improved to over 96% in the quarter to September from 96% in the preceding quarter. Non-banking finance companies

der market through initial public offerings (IPOs) in the past one year; despite it being an IPO season, Arohan Financial Services overtook the Securities and Exchange Board of India's approval for an IPO in April, while Fusion Micro Finance received the nod in November. During the second quarter of FY22,

NBFC-MFIs, however, received a total of ₹4,389 crore in debt funding, which was 47% higher than what they got in the year-ago period. Almost the entire debt funding was secured locally with banks contributing 22.2% of the total, data released by MFIN showed.

Non-banking finance companies

# UK's CDC Group Invests ₹320 crore in Six Indian MFIs

Move shows its trust on their unsecured lending model despite asset quality risks

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The investment — the first ever by CDC in a pooled bond structure — is aimed at providing systemic liquidity to these lenders. The rupee-denominated deals were jointly structured by CDC and Chennai-based Northern Arc Capital. The funding is supported by partial guarantee provided by Northern Arc. This investment is expected to support these MFIs in providing over 6.30 lakh new micro-loans to low-income households — primarily female and rural borrowers. "The structure has enabled originators to efficiently access a global DFI and avail long tenor debt on their balance sheet," Kshama Fernandes, chief executive officer of Northern Arc said. "We see this as a beginning of a long-term partnership that will enable our clients to raise capital through cycles."

Kolkata: CDC Group, the UK government's development finance institution, has invested ₹320 crore in six Indian microfinance lenders showing its confidence on their unsecured lending model despite the asset quality risks emanating from the delayed repayment of loans amid pandemic and slow revival of business. Annapurna Finance, Arohan Financial Services and Fusion Microfinance Company have raised ₹60 crore each from CDC in a pooled bond deal, industry captains said. ASA International India Microfinance has raised ₹40 crore while the balance amount was invested in Asirvad Micro Finance and Chaitanya India Fin Credit. The coupon rate for the bonds hovered between 9.3% and 9.9% a year; people familiar with the matter said. Asirvad, Arohan, Annapurna and Fusion are among the top 10 NBFC-MFIs at present.

CDC Group is the UK's first impact investor supporting the sustainable, long-term growth of businesses in South Asia and Africa. "We expect that this would be the first of many other similar structures in which CDC would invest in the future," Srinil Nagarajan, managing director and head of Asia at CDC said. NBFC-MFIs have received about ₹27,000 crore of debt funding from banks and other investors in the first nine months of FY22, according to data from Microfinance Institutions Network.

## Microfin sector to be back on track by March 2022: MFIN chief

"Industry has achieved 90% of pre-Covid disbursements"

**SHIBRA RAY**  
Kolkata, September 15  
The microfinance industry expects disbursements to bounce back to pre-Covid levels by the third quarter of this fiscal and growth to start coming in by Q4FY22 backed by a steady improvement in demand. The industry has already come back to nearly 90 per cent of pre-Covid levels in terms of disbursements in the second quarter of this fiscal. According to Anil Mishra, CEO and Director, MFIN (Microfinance Institutions Net-

work), there has been an improvement in collection efficiency and if there is no further lockdowns due to Covid-19, which looks unlikely at the moment, the industry should be back on track by March 2022. "In July-September quarter, we have achieved 90 per cent of the pre-Covid levels in terms of disbursements. We expect that in Q1, this will bounce back to pre-Covid levels and then there will be further improvement in disbursements to 24 this fiscal," Mishra told Businessline.



As on Sep 30, 2021, microfin industry served 5.65 crore unique borrowers. Microfinance loan disburseals during Q2 of this fiscal improved significantly to ₹4,389 crore as compared to ₹3,262 crore in same period last year. The number of loans disbursed during the quarter also in-

creased to 1.85 crore as against 1.44 lakh last year.

**GDP growth**  
The gross loan portfolio (GLP) of the overall microfinance industry grew 5.6 per cent to ₹2,43,737 crore as on September 30, 2021 compared to ₹2,31,278 crore as on September 30, 2020. As on September 30, 2021, the microfinance industry served 5.65 crore unique borrowers through 10.52 crore loan accounts, the MFIN report said. The GLP of NBFC-MFIs grew 15.45 per cent to ₹18,446 crore as on September 30, 2021 as compared to ₹16,351 crore a year ago.

On the recovery front, though there were some markets such as Assam and West Bengal which continue to have lower collection efficiency (marginally less than 90 per cent), some other states including Bihar, UP and parts of South India have seen collection efficiency close to 94-95 per cent, MFIN said. It is to be noted that nearly 80 per cent of the microfinance portfolio is concentrated in east, northeast and south regions. West Bengal has the highest average loan outstanding per unique borrower of ₹3,648 followed by Assam at ₹4,300. (With inputs from Sushil in Mumbai)



## About MFIN

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Microfinance Institutions Network (MFIN) is an industry association of Microfinance entities and an RBI-recognized Self-Regulatory Organization (SRO). MFIN Members are RBI regulated entities comprising the Non-Banking Financial Companies - Microfinance Institutions (NBFC-MFI), Banks, Small Finance Banks, NBFCs, Banking Correspondents, Credit Bureau, Fintech companies, among several others.

Keeping the larger objective of financial inclusion in mind, MFIN focuses on creating an enabling policy and business environment for its members to pursue responsible finance with the highest standards of customer protection and corporate governance. Towards this objective, MFIN works closely with the microfinance providers, regulators, Government and other key stakeholders across 37 states and union territories, spanning 635 districts to ensure that credit reaches the low-income households.

The impact of Microfinance on borrowers can be gauged by the fact that over 60 million women are at present being reached through these small, easily serviceable, collateral free loans, impacting as many as 300 million families. As a result, a vast unbanked and unserved population of India today has access to formal credit even in the remotest districts of India.

For more information about MFIN and its work, please refer to  
[www.mfinindia.org](http://www.mfinindia.org)

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