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MICROFINANCE INDUSTRY NETWORK

MICRO MATTERS: MACRO VIEW

India Microfinance Review
FY 2022-23

An MFIN Publication
November 2023

MICRO MATTERS: MACRO VIEW

India Microfinance Review
FY 2022-23

By

Microfinance Industry Network

First published in November 2023 by

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Sector 54, Golf Course Road
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ISBN: 978-81-967065-1-7

Contents

Abbreviations

A2F	Access to Finance
AB PMJAY	Ayushman Bharat Pradhan Mantri Suraksha Bima Yojana
AC	Accounts
ADB	Asian Development Bank
AIFI	All India Financial Institutions
AMFIRS	Assam Micro Finance Incentive & Relief Scheme
AP	Andhra Pradesh
API	Application Programming Interface
ATM	Automated Teller Machine
BBPS	Bharat Bill Payment System
BC	Business Correspondents
BRICS	Brazil, Russia, India, China, and South Africa
BSBD	Basic Savings Bank Deposit
CAD	Current Account Deficit
CAGR	Compound Annual Growth Rate
CAIIB	Certified Associate of Indian Institute of Banking and Finance
CB	Credit Bureau
CBDC	Central Bank Digital Currency
CBSP	Capacity Building Service Provider
CCIR	Company Credit Information Report
CG	Credit Guarantees
CGFMU	Credit Guarantee Fund for Micro Units
CGRM	Customer Grievance Redressal Mechanism
CGSMFI	Credit Guarantee Scheme for MFIs
CGSSD	Credit Guarantee Scheme for Subordinate Debt
CGTMSE	Credit Guarantee Trust for Micro and Small Enterprises
CIC	Credit Information Company
CICRA	Credit Information Companies (Regulation) Act
CIR	Credit Information Report
CKYCR	Central Know Your Customer Registry
COC	Code of Conduct
Cr	Crores
CRL	Code for Responsible Lending
CSP	Customer Service Point
CSR	Corporate Social Responsibility
DEA	Depositor Education and Awareness
DFS	Department of Financial Services
DQI	Data Quality Index
DSCR	Debt-Service Coverage Ratio

ECB	External Commercial Borrowing
ECLGS	Emergency Credit Line Guarantee Scheme
EIR	Effective Interest Rate
EMDE	Emerging Market and Developing Economies
EME	Emerging Market Economies
EMI	Equated Monthly Instalment
FCR	Financial Cost Ratio
FI	Financial Inclusion
FIDC	Finance Industry Development Council
FIOR	Fixed Income to Obligation Ratio
FO	Field Officer
FOIR	Fixed Obligation to Income Ratio
FPC	Fair Practice Code
FY	Financial Year
GDP	Gross Domestic Product
GECL	Guaranteed Emergency Credit Line
GI	Gender Inequality
GLP	Gross Loan Portfolio
GNPA	Gross Non-Performing Assets
GOI	Government of India
GVA	Gross Value Added
HDI	Human Development Index
HFI	High Frequency Indicators
HH	House Hold
HR	Human Resource
IDRBT	Institute for Development and Research in Banking Technology
IGA	Income Generation Activities
IIP	Index of Industrial Production
IMEF	International Master in Economics, Finance and Data Science
INR	Indian Rupee
I-O	Input-Output
IOD	Institute of Directors
IOI	Incidence of Indebtedness
IPO	Initial Public Offering
IRACP	Income Recognition, Asset Classification and Provisioning
IRDAI	Insurance Regulatory and Development Authority of India
IRR	Internal Rate of Return
JAIIB	Junior Associate of Indian Institute of Banking and Finance
JAM	Jan Dhan-Aadhar-Mobile
JLG	Joint Liability Group
K	Thousand
KCC	Kisan Credit Card
KMP	Key Managerial Personnel
KYC	Know your Customer
LCR	Liquidity Coverage Ratio
LEF	Large Exposure Framework
LFPR	Labour Force Participation Rates
LIC	Low-Income Country

LIH	Low-Income Household
LLP	Limited Liability Partnership
LMS	Learning Management Systems
LO	Loan Officer
LOS	Loan Origination System
MF	Micro Finance
MFI	Microfinance Institution
MFIN	Microfinance Industry Network
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
ML	Middle Layer
MLI	Member Lending Institutions
MOB	Months of Business
MoF	Ministry of Finance
MoMSME	Ministry of Micro, Small & Medium Enterprises
MSC	MicroSave India Consulting Pvt Ltd
MUDRA	Micro Units Development & Refinance Agency Ltd
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
NCGTC	National Credit Guarantee Trustee Company Ltd
NFHS	National Family Health Survey
NHB	National Housing Bank
NNPA	Net Non-Performing Assets
NPA	Non-Performing Asset
NRC	Nomination and Remuneration Committee
NRLM	National Rural Livelihoods Mission
NTC	New to Credit
O/S	Outstanding
OCEN	Open Credit Enablement Network
OECD	Organisation for Economic Co-operation and Development
OER	Operating Expense Ratio
OSS	Operational Self-Sustainability
PAN	Permanent Account Number
PAR	Portfolio at Risk
PCA	Prompt Corrective Action
PER	Personnel Expense Ratio
PFCE	Private Final Consumption Expenditure
PLI	Production Linked Incentive
PMFBY	Pradhan Mantri Fasal Bima Yojana
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMSBY	Pradhan Mantri Suraksha Bima Yojana

PSB	Public Sector Banks
PSL	Priority Sector Lending
QA	Qualifying Assets
QoQ	Quarter on Quarter
RBI	Reserve Bank of India
RE	Regulated Entities
ROA	Return on Assets
ROE	Return on Equity
RRB	Regional Rural Banks
Rs	Rupees
SA	Statutory Auditor
SBA	Small Borrowal Accounts
SBLP	SHG-Bank Linkage Programme
SBR	Scale Based Regulation
SCA	Statutory Central Auditor
SCB	Scheduled Commercial Banks
SDG	Sustainable Development Goal
SFB	Small Finance Bank
SFTP	Secure File Transfer Protocol
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SIT	State Initiative Team
SLA	Special Liquidity Assistance

SME	Small Medium Enterprises
SRO	Self-Regulatory Organisation
SRS	Sample Registration System
SVB	Silicon Valley Bank
TA	Technical Assistance
TAT	Turn Around Time
TOT	Training of Trainers
TPE	Third-Party Evaluations
TPP	Third-Party Products
TSP	Technical Support Providers
TWG	Technical Working Group
UB	Unique Borrower
UCRF	Uniform Customer Reporting Format
UL	Upper Layer
UPI	Unified Payments Interface
UR	Unemployment Rate
UT	Union Territory
VID	Virtual Identity
WC	Working Capital
WPR	Worker Population Ratio
WRMS	Weather Risk Management Services
YoY	Year on Year

Message from the Chairperson

"India's leap in financial inclusion, powered by Digital Public Infrastructure", were the words of Hon'ble Prime Minister Narendra Modi in September 2023 against the G20 backdrop as India achieved its financial targets faster than predicted, powered by robust digital payment infrastructure and the spirit of its people.

Augmenting the efforts of the government policies like the Pradhan Mantri Jan Dhan Yojana (PMJDY), were the exhaustive efforts of the microfinance sector that had one of the strongest footholds in rural India, making it possible to take financial inclusion to the nation's hinterland. Microfinance not only provided the unserved, access to finance but its adoption of digital technologies fast tracked the inclusion process. As of 31 May 2023, the total loan portfolio of the microfinance industry stood at Rs 3,50,322 Cr with a total of 13.2 Cr active loans and 7 crore borrowers.

More importantly, it is primarily women who comprise the 7 crore borrowers, reaffirming the importance of microfinance in spurring gender equality and entrepreneurship. The G20 Delhi Leaders' Declaration in September 2023 has among other points committed to promoting women's inclusion into the formal financing system by strengthening their access to economic resources, particularly through digital finance and microfinance, leading to equal, effective, and meaningful participation of women in the economy as decision makers.

In this context, Micro Matters: Macro View, India Microfinance Review FY 2022-23 carries more weight than its previous issues as it presents an overarching overview of financial inclusion in the country and the game changing role of Microfinance in enabling low-income households across 28 states and 8 union territories in gaining credit access.

This is the third issue of Micro Matters: Macro View, introduced by Microfinance Industry Network (MFIN) in 2021 with the objective of presenting an accurate analysis of the sector as seen through its eyes as an Association and SRO. I am pleased to observe that with every passing year, Micro Matters: Macro View is getting more comprehensive and catering to the interest of every microfinance stakeholder in some way or the other.

The report 2022-23 is also the first post-covid assessment of the sector in a way as the previous two issues reflected the Covid impact on the sector or its efforts to recover. I recognize with pride how this sector and the institutions that comprise it navigated repeated crises and yet kept their focus on customer-centricity. It was the sector's foresight, owing to a thorough understanding of its borrower, that it adopted a tech-touch model which always held the borrowers in good stead.

This is the first complete year after the introduction of the new landmark regulations by the Reserve Bank of India and therefore we understand that there will be an interest in gauging the sector performance keeping that in mind. We have therefore introduced a special chapter on 'Life after amended regulations for microfinance loans' and hope that you will find the same useful.

Financial inclusion will be crucial to meeting the Sustainable Development Goals for India by reducing poverty, encouraging good health/well-being, gender equality, among others. The sector has continuously demonstrated its contribution towards these goals and will play an important role in the country's inclusive growth. Credit demand of digitised SMEs is predicted to cross $570b in 5 years (report by Redseer and GetVantage; out of the $220 billion credit demand, only $165 billion is being fulfilled). The future looks bright from the demand and supply sides and with the supportive role played by policy in the past, India will continue to be one of the fastest-growing economies.

Udaya Kumar Hebbar
Chairperson – MFIN

Prologue

At the helm of MFIN, I wondered that while host of agencies write about financial inclusion and microfinance with their own predilections, there is no report that analyses the sector holistically. This is how “Micro Matters: Macro View” was conceived in 2021 and this is the third edition. The idea on which the report is based is our 360-degree knowledge of the sector derived from interaction with policy makers, regulator, industry players, funders and analysts; and this needs to be presented. In addition, the activities done by MFIN to ensure that the sector is sustainable and responsible also needed to be documented. The report tries to do this, while avoiding any biases as our role as SRO is focused on clients and their journey in shaping an Inclusive growth model for India. Over the years, the structure has remained similar with some additions each year.

Microfinance being an integral part of the Indian economy and the financial sector, first two chapters are devoted to these aspects. A holistic scan of the Indian economy on both economic and social/human parameters shows the progress towards becoming a developed country. The fact that India was able to grow and hold its currency range bound despite global headwinds in the form of COVID overhang, accentuated trade disruptions due to Russia-Ukraine war and rise in policy rates in US and EU is a story of resilience. World Bank’s India Development Update (IDU), the flagship half yearly report on the Indian economy, observes that despite significant global challenges, India was one of the fastest-growing major economies in FY22/23 at 7.2%. Similarly, on the human development front, progress on access to improved water source, sanitation, Under 5 mortality rate and life expectancy complement economic progress. All these are pointers towards our progress towards national aspiration of $5 trillion economy. But the key point is that aggregate measures often belie the equity part of growth story. John F. Kennedy said “A rising tide lifts all boats”, but history of economic development shows that “lifting all boats” is not automatic but requires conscious policy actions.

Based on this belief, the role of financial sector and microfinance in ensuring that development leaves no one behind is taken up in Chapters two and three. While bank account ownership has become near universal in India, gaps in credit delivery and insurance coverage need work. While it is acknowledged that Commercial banks have limitations in retailing small size loans, their role in such cases needs to shift to providing wholesale loans to institutions, which specialise in this. This will be a true spirit of cooperative effort in solving the inclusion challenge as envisaged by the Mor committee set up by the RBI in 2014. Last mile inclusion effort of banks rests on shoulders of BCs and the sudden drop in numbers during 2022 is a matter of concern. Equally concerning is the regional skewness in credit flow coupled with steady increase in share of personal loans over agriculture, industry and services sector.

Microfinance sector on its part has rebounded after COVID aided by RBI's new guidelines for microfinance. The sector [NBFC-MFIs, Banks, SFBs, NBFCs] added 80 lakh new clients to its fold during 2022-23 and as of March 2023 catered to 6.60 crore clients with a loan portfolio of Rs.3.48 lakh crore. The reach of the sector is phenomenal with operations across 729 districts including 112 aspirational districts. Criticality of microfinance in building economic aspirations is amply brought out by the fact that in absence of microfinance due to state intervention in Andhra Pradesh, the share of informal sector in credit in AP rose from 57.9% in 2012 to 64.2% in 2018. The other redeeming feature of microfinance has been that its regional focus has been on credit deficient states. As RBI's new regulations have moved the needle to principles-based framework, it is expected that microfinance operations will further go to financially excluded areas.

As an SRO, MFIN has the responsibility to ensure that the sector remains true to its mission, responsible and compliant with regulations. Discharging that role entails working on plugging ecosystem issues like credit bureau reporting, building capacity of the sector through analysis of gaps and future challenges, monitoring compliance and field issues and dialogue with the regulator and policy makers. Chapter 4 details the key steps taken by MFIN during the year in this sphere. Revision of Code of Conduct post new RBI guidelines, data reporting to the RBI on pricing and indebtedness, working with bureaus and TWGs to streamline credit bureau reporting, training of middle management through a specially curated program, programme for independent directors and risk management workshop are some of the important initiatives taken by MFIN in addressing the entire value chain.

MFIN in itself went through a paradigm change with the changes in the ecosystem. MFIN membership now comprises of all Regulated Entities active in microfinance lending, thereby bringing all microfinance lenders under the same umbrella. This will provide us a unique advantage as issues across entities can be resolved in a collaborative manner.

Chapter 5 turns to future growth potential of the sector as well as steps being planned for FY 23-24 and beyond for fool proofing the sector. The vision at MFIN has always been to crystal gaze future challenges based on current scenario and take steps to strengthen the preparedness. The belief underpinning this is that – we owe it to millions of clients and prospective clients as well as to the nation. The report assesses microfinance potential demand during FY 23-24 at Rs 13 lakh crore and compared to current figures, credit gap works out to 70%. This underlies the immense growth potential of the sector.

However, the growth will only be possible, if the sector addresses emerging issues and remains true in letter and spirit to the regulatory framework. Key issues which MFIN has been flagging are weakening of group discipline, staff turnover and over saturation in certain markets. Added to this list is the challenge posed in the field by app-based lenders who lend without physical presence and get conflated with microfinance by local agencies. While MFIN will keep doing its best, I am sure that the supporting hand of the regulator and willingness of the practitioners to take proactive steps will help us navigate these challenges.

I feel pleased to see that Micro Matters: Macro View has found its place as a regular annual publication and hope readers will find it enriching. Let us march forward reiterating "The future is not something we enter. The future is something we create." ~ Leonard I. Sweet.

Dr Alok Misra
CEO & Director

01
Macroeconomic environment

1.1 Economic & growth indicators

India stepped into her '*Amrit Kaal*' when she celebrated 75 years of independence on 15th August 2022. However, the fiscal year that passed saw economies across the world trying to stay afloat amidst successive global turbulence. The new decade has been marked by disasters with globally spiralling impact. First, the COVID-19 pandemic stifled global economic output with three major waves of infection between 2020 and 2022. Second, the culmination of geo-political conflicts between Russia and Ukraine into a war in February 2022, translated into worldwide breakdown of trade. To deal with the resulting inflation, the Federal Reserve hiked policy rates and other central banks including India followed suit. Currency depreciation and widening of the current account deficit ("CAD") that followed this monetary tightening dealt the third blow to emerging market economies like India.

Major Macroeconomic Events of FY 2022-2023

Globally Surging Prices: Global supply chains, which were already strained due to the pandemic lockdowns, became fragile in the wake of the European war. Particularly important was the affected supply of essential commodities such as crude oil, natural gas, and wheat. The outcome was globally rising price levels, with World Consumer Prices growing at 8.7% in 2022.[1] Inflation in advanced economies alone was estimated to be 7.3% in 2022[1], more than twice the rate at which prices increased in the year before. The annual average price of Brent crude oil in 2022 was 100.94 USD per barrel as opposed to 70.89 USD in 2021.[2] Fuel prices hence, remained a big contributor of increase in prices internationally. Pass-on of these high input costs into final consumer prices primarily drove this phenomenon of 'cost-push inflation'. The effect on prices of supply shortages was aggravated by a resurgence in consumer demand after the easing of pandemic restrictions.

[1] 2023, July. International Monetary Fund. "World Economic Outlook Update"
[2] Energy Prices, U.S. Energy Information Administration

Monetary Policy: In a bid to reduce sticky price levels, central banks resorted to monetary policy tools. The U.S. Federal Reserve and central banks of other advanced economies hiked interest rates through the year, with the objective of removing excess liquidity from the market. Between April 2022 and March 2023, the Federal Funds Effective Rate went from 0.33% to 4.65%.[3] While necessary for curbing the rampant inflation, tightening of monetary policy led to depreciation of currencies vis-à-vis the US Dollar, capital outflow and widening of the current account deficit of emerging market economies ("EMEs"). Most importantly, the inflation-growth trade-off that is implied by the theory of Phillips curve[4], came into play. Eventually, a state of stagflation was reached that remained prevalent through most of the year. This has been the primary cause of concern for monetary policy committees the world over. Repo rate in India had been constant at 4% for nearly two years from 2020 to 2022. Starting May 2022, however, the Monetary Policy Committee of the Reserve Bank of India hiked the repo rate in each of its six consecutive meetings, till the policy rate hit 6.5% in February 2023.[5]

Fear of a Financial Crisis: The year ended on yet another set of dismal notes emerging from the global financial sector. The failure of the Swiss banking giant, Credit Suisse, in March 2023 was one such event. Building up with a decade-long run of scandals revolving around mismanagement of funds and other malpractices, the end of Credit Suisse was drawn out over a period where it witnessed large-scale withdrawal by its depositors, loss of confidence by investors, and finally, an acquisition by UBS. This coincided with the collapse of major U.S. banking entities, most prominently, the Silicon Valley Bank ("SVB"). Since the start of the COVID-19 pandemic, SVB had invested largely in government securities which started working against the banking institution as the Federal Reserve hiked interest rates to combat inflationary pressures. Massive withdrawal by customers followed here as well and ended in the shutting down of SVB. Together such crises in the banking sector revived memories of the 2007-2008 financial crisis as well as fears regarding global contagion and eventual crash of the financial system.

Domestic Trend of Macroeconomic Indicators

Domestic Inflation: Domestic inflation in FY 2022-2023 was 6.7%[6], a reassuring figure when compared to the estimate of 9.8% for all Emerging Markets and Developing Economies taken together in 2022.[7] In global comparison, India's state was slightly heartening. By itself, the inflationary pressures in India have still been very concerning. **Table 1.1** shows the trend of CPI Headline Inflation from FY 2013-2014 to FY 2022-2023, with the

Table 1.1: India: CPI Headline Inflation Statistics (%), 2013 - 2023

Item	2013- 14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Mean	9.4	5.8	4.9	4.5	3.6	3.4	4.8	6.2	5.5	6.7
Std. Deviation	1.3	1.5	0.7	1.0	1.2	1.1	1.8	1.1	0.9	0.7
Skewness	-0.2	-0.1	-0.9	0.2	-0.2	0.1	0.5	-0.7	-0.1	-0.1
Kurtosis	-0.5	-1.0	-0.1	-1.6	-1.0	-1.5	-1.4	-0.7	-1.0	-0.6
Median	9.5	5.5	5.0	4.3	3.4	3.5	4.3	6.5	5.6	6.7
Maximum	11.5	7.9	5.7	6.1	5.2	4.9	7.6	7.6	7.0	7.8
Minimum	7.3	3.3	3.7	3.2	1.5	2.0	3.0	4.1	4.2	5.7

Note: Skewness and Kurtosis are unit-free. Annual inflation is the average of the monthly inflation rates during the year and therefore, may vary from the annual inflation calculated from the average index for the year.

Source: RBI Annual Report, 2022-23

[3] Economic Research Division, Federal Reserve Bank of St. Louis

[4] 1958, Nov, Economica, Vol 25, Issue 100. A.W.Phillips, "The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957"

[5] Database of Indian Economy, Reserve Bank of India

[6] Press Note on Provisional Estimates of National Income 2022-23 and Quarterly Estimates of Gross Domestic Product for the Fourth Quarter (Q4) of 2022-23, Ministry of Statistics and Programme Implementation

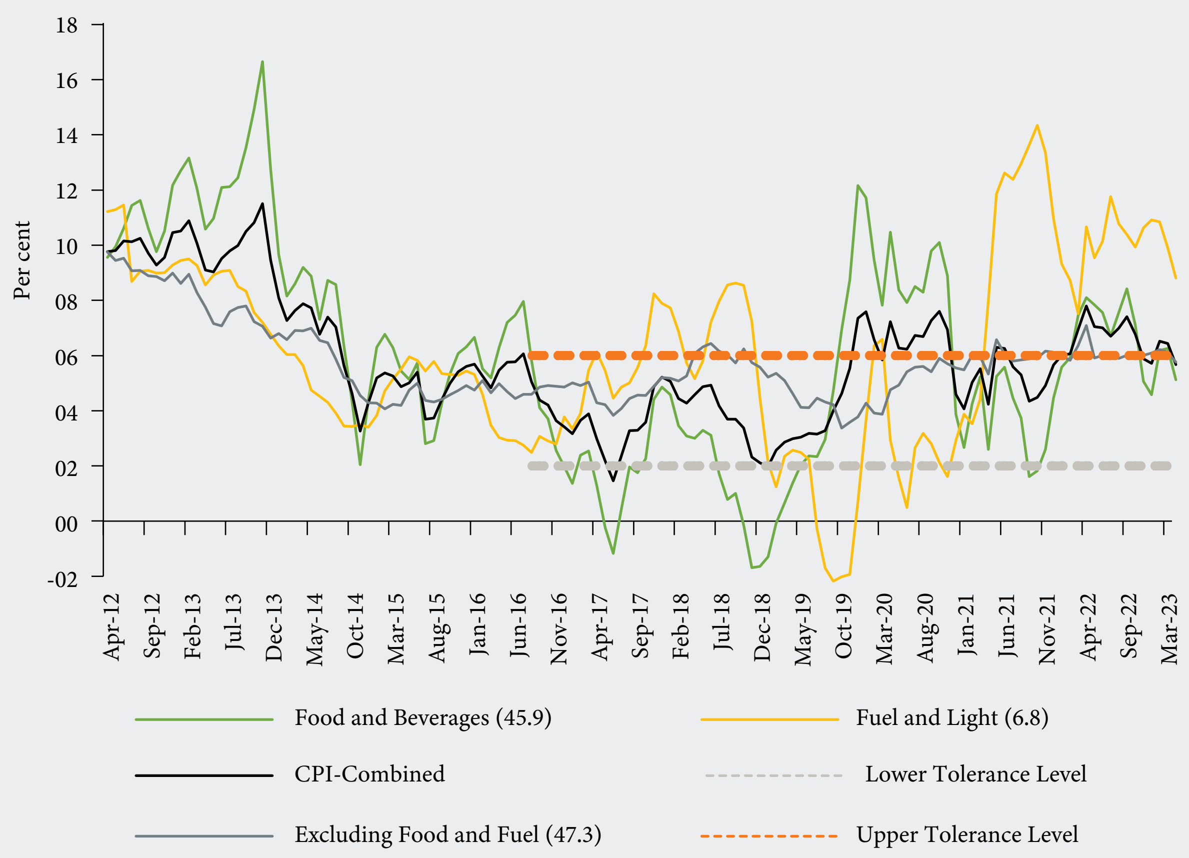
[7] 2023, July. International Monetary Fund. World Economic Outlook Update

maximum in 2022-2023 going up to 7.8%. The highest contributor of the continually raised price levels in FY 2023 has been food inflation, followed by erratic fuel prices.

This can be seen in **Figure 1.1** where, between the onset of COVID-19 restrictions and March 2023, food & beverages and fuel & light have remained consistently above the upper tolerance level of inflation as decided by the MPC. Other occurrences that contributed to soaring prices in the country were excessive heat in April 2022 and unseasonal rains towards March 2023.

Economic Output: World output grew at only 3.5% in 2022 as opposed to 6.3% in 2021.[8] Year-over-year growth in world trade volume, which was 10.7% in 2021, declined to 5.2% in 2022. Introduction of higher repo rates in India suppressed the consumption as well as investment demand in the country. Despite these challenges, India's economic performance has shown promise. Indian real

Figure 1.1: Domestic Inflation Across Major Components, FY 2013 – FY 2023



Note: Figures in parentheses indicate weight in CPI-Combined. April and May 2020 data were imputed by the NSO.
Sources: NSO and RBI staff estimates.

Source: RBI Annual Report, 2022-2023

8 See footnote 1

GDP growth in 2022-2023 stood at 7%, as noted in **Table 1.2**, nearly double the rate estimated globally. Although the reported figure for 2021-2022 was higher, this rate of 9.1% represented India's recovery from the de-growth that was the outcome of the COVID-19 pandemic. In absolute terms, India's GDP reached an all-time high of Rs. 160 trillion last year.[9]

The first quarter of FY 2022-23 did not show any lagged sign of economic contraction from the Omicron wave of January 2022. This was largely due to the combined effect of massive vaccination drives and eased restrictions on economic agents. The optimism hence induced in the economy gave a much-needed push to the aggregate demand. Private final consumption expenditure ("PFCE"), which had taken a sharp hit during the pandemic, showed a year-on-year growth of 7.3% in FY 2023. More importantly, PFCE was the main factor driving growth in the Indian economy with a share in GDP of 58.4% in the second quarter of FY 2023.[10] Economic growth has also been aided by significantly increased efforts from the government of India. **Figures 1.2 and 1.3** show the trend that capex has followed in the last few years along with the increase in absolute amount in FY 2023. This added to the annual fixed capital formation by boosting the construction sector and providing the necessary push for crowding-in of private investment.

Table 1.2: India: Real GDP Growth, 2018 - 2023

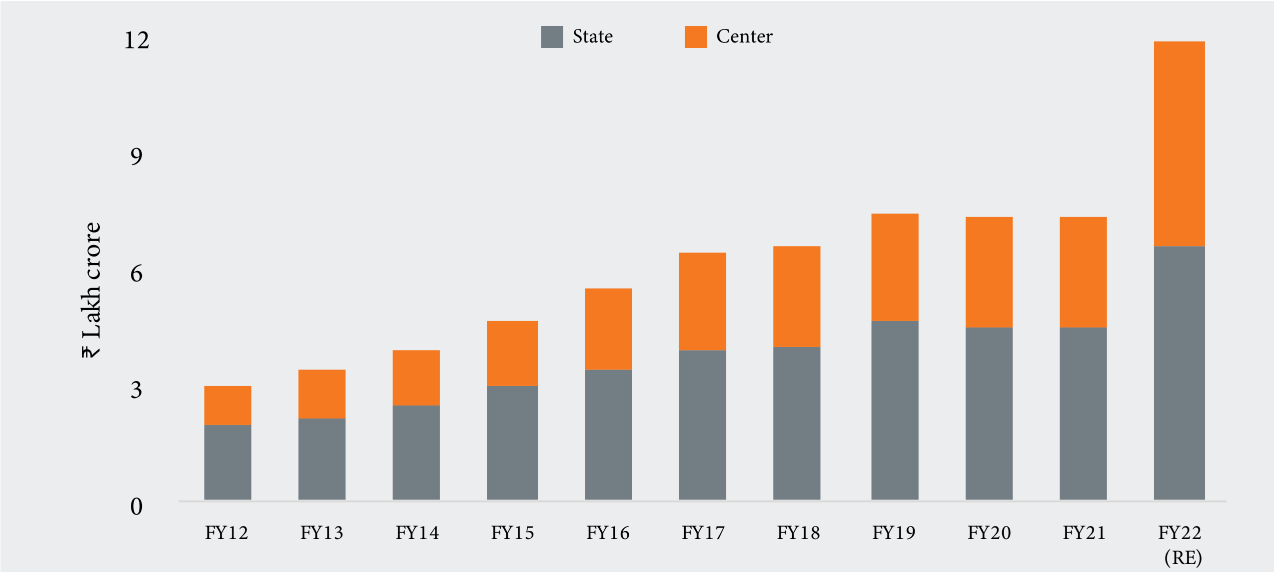
Component	Growth (per cent)				
	2018-19	2019-20	2020-21	2021-22	2022-23
I. Total Consumption Expenditure	7.0	5.0	-4.6	10.5	6.4
Private	7.1	5.2	-5.2	11.2	7.3
Government	6.7	3.9	-0.9	6.6	1.2
II. Gross Capital Formation	6.2	-6.0	-11.6	22.2	9.6
Gross Fixed Capital Formation	11.2	1.1	-7.3	14.6	11.2
Change in stocks	27.3	-58.7	-85.5	687.8	1.9
Valuables	-9.7	-14.2	26.4	34.0	-14.8
III. Net Exports	11.9	-3.4	-9.1	29.3	11.5
Exports	8.8	-0.8	-13.7	21.8	18.8
Imports					
IV. GDP	6.5	3.9	-5.8	9.1	7.0

Source: RBI Annual Report, 2022-2023

9 Annual Estimates of GDP at Constant Prices, 2011-12 Series, Ministry of Statistics and Programme Implementation, GoI

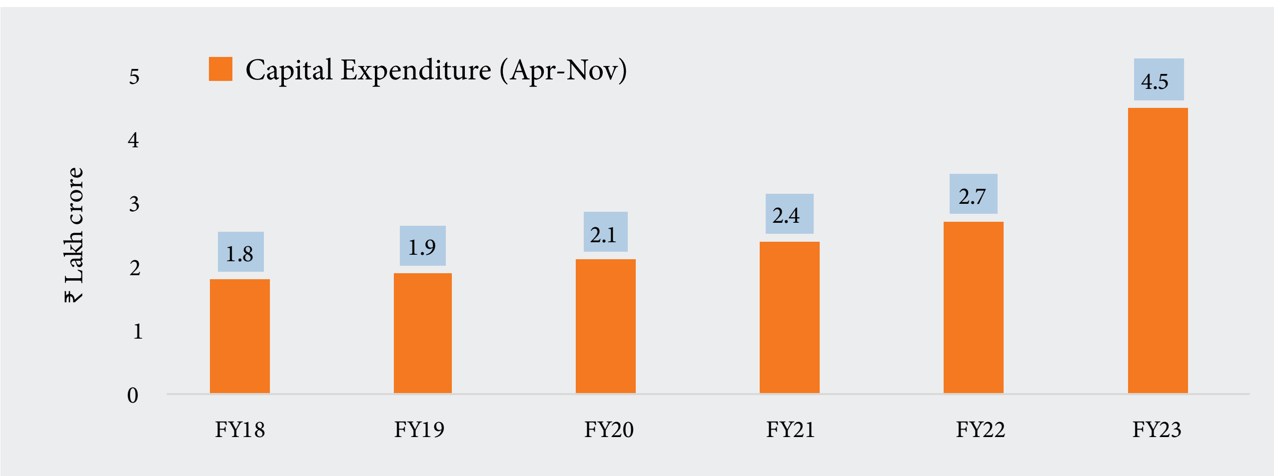
10 Economic Survey, 2022-2023

Figure 1.2: Increase in Capex by State and Central Governments, FY 2012 - FY 2022



Source: Economic Survey, 2022-2023

Figure 1.3: Increase in Capex between April and November, FY 2018 – FY 2023



Source: Economic Survey, 2022-2023

Others: Rural India started on a path of recovery when the COVID-19 scare started dying down. The number of persons demanding work under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) between the months of July and November in 2022-2023 has fallen and is close to the count recorded in 2019-2020.[11] An uptick has been seen in the sale of tractors and fertilisers which can be viewed as a sign of positive expectations in the agriculture

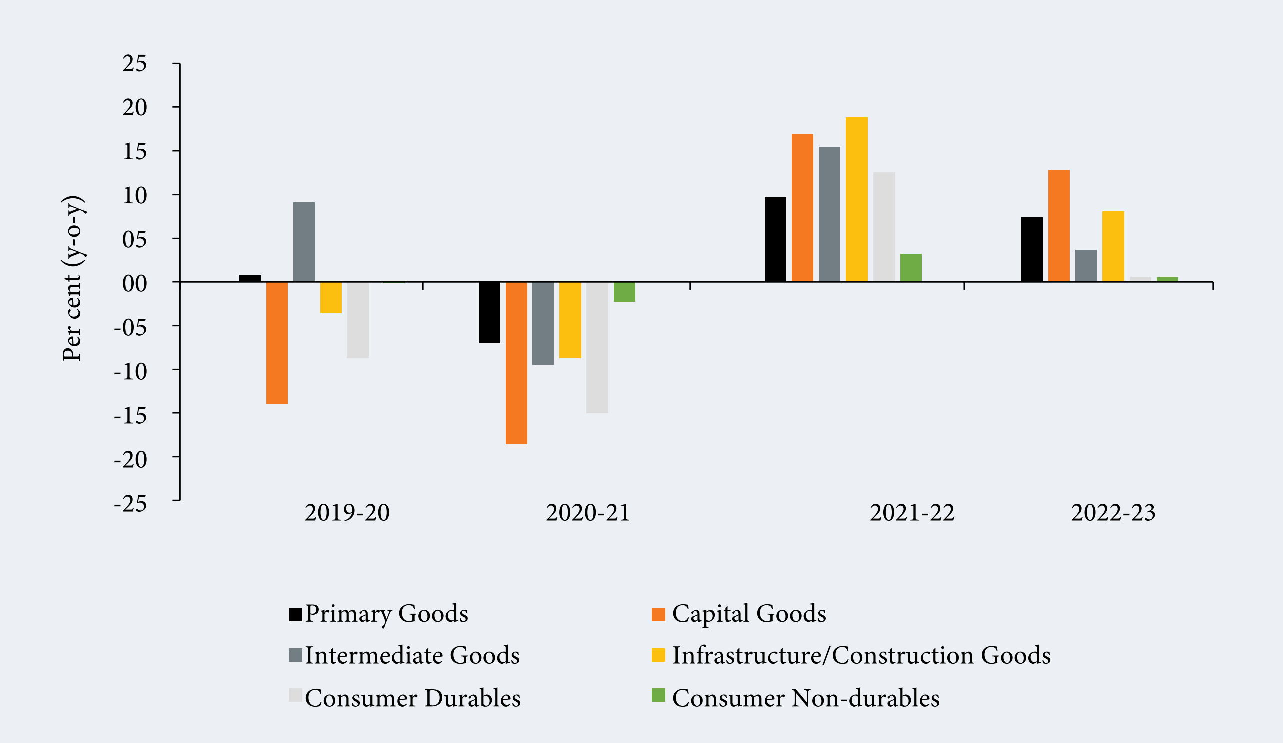
[11] Economic Survey, 2022-2023

and allied activities sector. Congruently, there has also been a boom in demand for credit in the rural economy. However, the global shocks received mainly through surging inflation has subdued this process in 2022-2023. As an example, in terms of real rural wage, the year-on-year growth in 2022-2023 has been negative. Overall, the beaten-down rural Indian economy has shown improvement from the pandemic era in 2022-2023 albeit at a slow rate.

Various other High Frequency Indicators ("HFI") for the Indian economy have trended differently. On the consumption side, automobile sales have grown (year-on-year) moderately in the urban economy and shown a sharp rise in the sub-category of three-wheelers in rural India. Impressive surges have been witnessed in air traffic numbers and in hospitality industry. This can be tied to the phenomenon that has now been termed as "revenge tourism" – a major bounce-back in travel and tourism numbers after easing of strict imposition of pandemic regulations. Domestic air passenger traffic in the first quarter of 2022-2023 recorded a growth of 206.2% over the first quarter of 2021-2022. Growth over the same quarters being compared in international air traffic has been 403.3%.[12]

On the production front, the index of industrial production ("IIP") recorded a growth of 5.1% in 2022-2023, largely propelled by manufacturing activities. A breakdown of year-on-year growth in IIP by various types of goods manufactured is present in **Figure 1.4.** Non-food credit increased to 15.4%, higher than it has been in the last seven years **(Figure 1.5).** This is indicative of how increased amount of credit is being extended by the financial sector for personal as well as productive (agriculture, industrial or services) purposes.

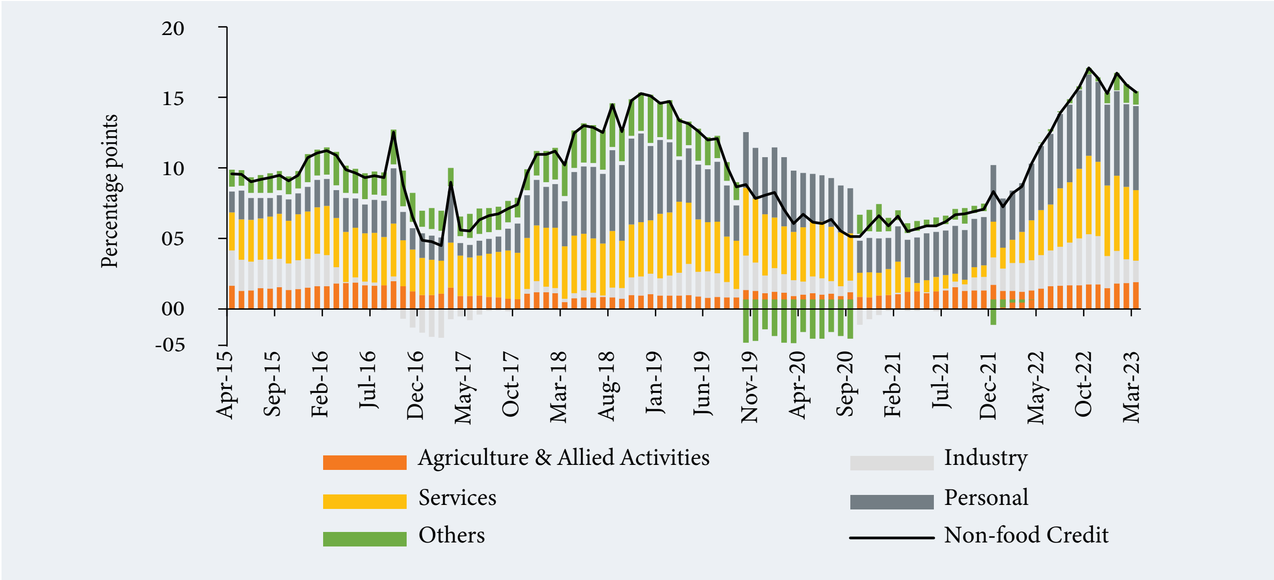
Figure 1.4: Growth in Index of Industrial Production, 2019 - 2023



Source: RBI Annual Report, 2022-2023

[12] RBI Annual Report, 2022-2023

Figure 1.5: Contribution of Components to Credit Growth, 2015 – 2023

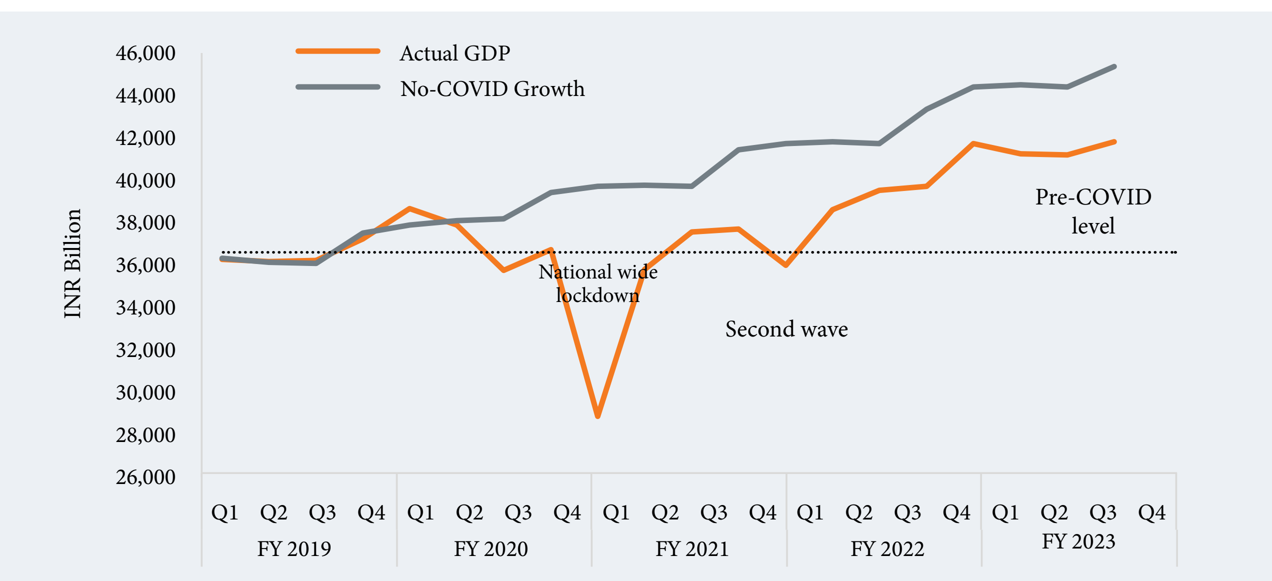


Source: RBI Annual Report, 2022-2023

Outlook for India

Despite global headwinds, the Indian economy has fared well. Growth in India did not slump at par with the global output. The domestic economy's recovery from the COVID-19 shocks and lockdowns has been impressive. **Figure 1.6** demonstrates this as it shows the path of Indian GDP across quarters from April 2018 to March 2023. After the plummeting of output due to the pandemic between 2020 and 2021, GDP of India rebounded well, closer to its projected trajectory than expected. Even as capital outflows persisted, Indian Rupee depreciation remained within a range. Appropriate and timely monetary policy measures implemented by the RBI have managed to contain the spiralling inflation in recent months.

Figure 1.6: Real GDP of India, FY 2019 – FY 2023



Source: Indian Economic Outlook, July 2023, Deloitte

Prospects of the Indian economy in the coming times will be coloured by several domestic and global ongoings. Reforming various facets of the financial sector has been one of the top priorities of the current Indian government. The push that banking, finance and digitization of the same have received through major initiatives such as the "JAM trinity" (Jan Dhan-Aadhaar-Mobile) and Unified Payments Interface (UPI) has been key in promoting financial inclusion. In late 2022, the RBI launched pilots of India's Central Bank Digital Currency (CBDC) or the e-Rupee. This is a move towards improving ease of customer's access to funds and increasing general security around financial system transactions in the coming years. Continual efforts towards improving the quality of capital vis-a-vis the lowering of Stressed and Non-Performing Assets will help to turn around the banking sector performance and increase the optimism around investment in the country. The boost that infrastructure development in the country has received through increased government expenditure on the same promises growth across sectors over many years.

The resistance that the Indian economy has shown to macroeconomic shocks in the recent years has favoured the positive outlook that is being maintained for India's current financial year. The IMF's forecast of India's economic growth in FY 2023 – 2024 stands strong at 6.1%, as of July 2023. Considering the structural reforms and policy measures introduced in the country as well as the heightened focus on economic development, India's economic trajectory in 2023 is being pegged as promising, among major economies of the world.

1.2 Human development indicators

Economic growth and Human Development go in tandem. India is poised to be in middle-income group in terms of per capita income and has already moved from low to medium category in terms of the UNDP Human Development Index (HDI). Between 1990 and 2020, the under-five mortality rate (U5MR) reduced from 126 to 32 (per 1,000 live births). Eleven (11) States/UT have already attained SDGs target of U5MR (<=25 by 2030): Kerala (8), Tamil Nadu (13), Delhi (14), Maharashtra (18), J&K (17), Karnataka (21), Punjab (22), WB (22), Telangana (23), Gujarat (24), and Himachal Pradesh (24).

Similarly, the maternal mortality ratio also declined from 384 per 100,000 live births in 2000 to 97 per 100,000 live births in 2019. Kerala (19), followed by Maharashtra (33), then Telangana (43) and Andhra Pradesh (45), Tamil Nadu (54), Jharkhand (56), Gujarat (57) and lastly Karnataka (69) have attained the SDG 2030 target.

The nutritional challenges among children have shown improvements. 38.4% Children under-five years who were stunted (height-for-age) in 2015-16 have come down to 35.5% by 2019-21. Similarly, under-five wasting (weight-for-height) dropped from 21% (2015-16) to 19.3% in 2019-21.

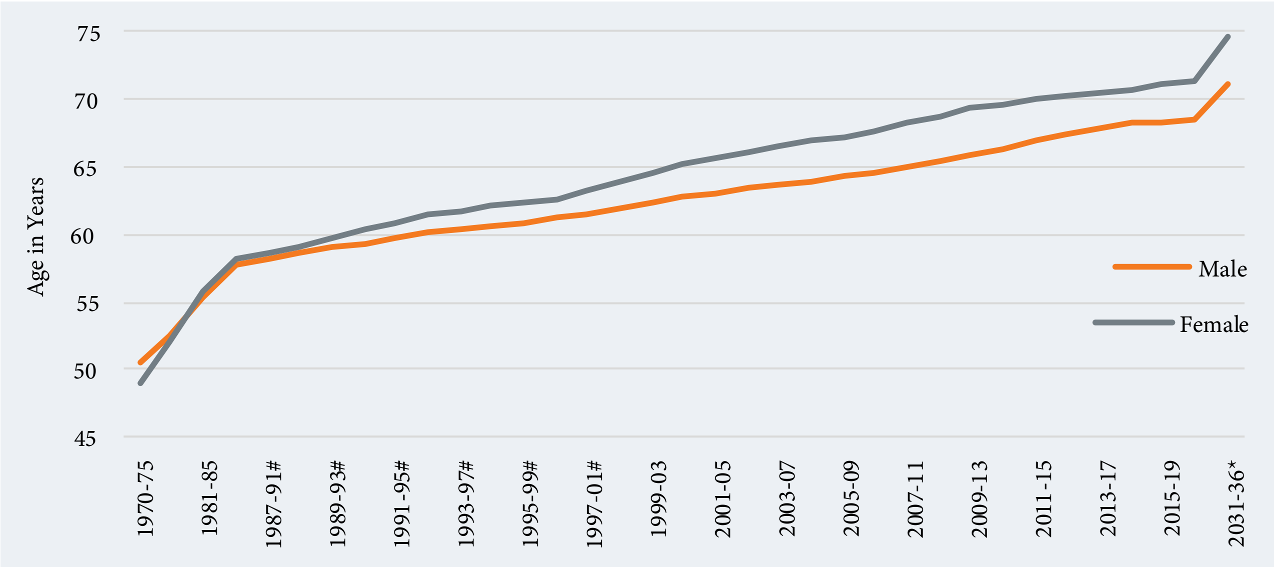
In education, India has achieved near universal access at the elementary level of schooling and 97% and 96.6% habitations have been covered with primary and upper primary schools respectively. Literacy rate increased from 48 per cent in 1991 to 84.4 per cent for males and 71.5 per cent for females in 2021 (National Family Health Survey round five, NFHS-5).

Households in India today have near universal access to electricity, availability of drinking-water source and sanitation facility as per NFHS-5. As per NFHS-5, 96.8 per cent households have access to electricity, 95.9 per cent have improved drinking-water source and 70.2 per cent have an improved sanitation facility.

1.2.1 Life expectancy at birth

Medical and healthcare advancements in the country have shown remarkable improvements leading to increase in the life expectancy at birth, as shown in **Figure 1.7**. It has improved by 20 years since 1975 and reached 70 years. The life expectancy at birth for males and females is at 68.6 and 71.4 years respectively. The projected life expectancy for the year 2031-36 for males and females is respectively 71.2 and 74.7 years.

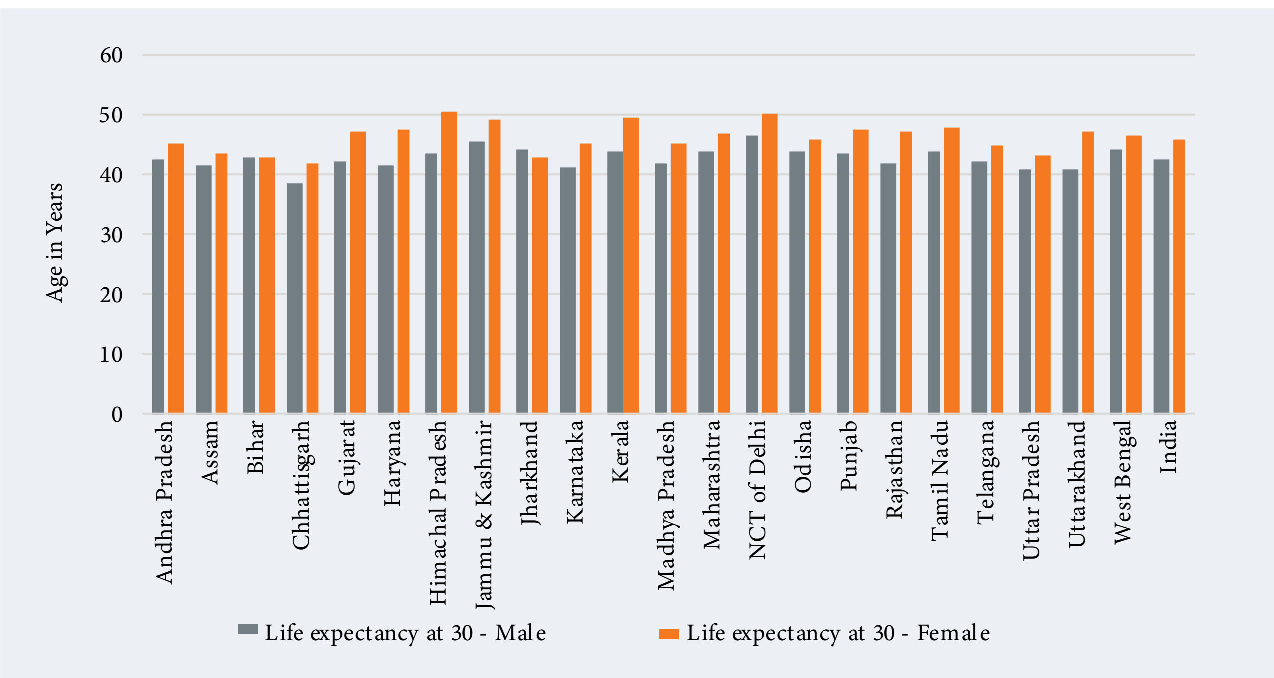
Figure 1.7: Life expectancy at birth



Source: Sample Registration System (SRS) Statistical Report 2020; #Estimate; *Projected

In Life expectancy at age 30 for bigger states/ UTs, NCT Delhi has the highest expectancy for males at 46.3 years and the minimum for the state of Chhattisgarh at 38.6 years **(Figure 1.8)**. For Females, the highest life expectancy at age 30 is from Himachal Pradesh at 50.3 years and minimum at 41.7 years for the state of Chhattisgarh.

Figure 1.8: Life expectancy at 30 for bigger States/UT



Source: SRS, Statistical Report 2020

1.2.2 Per Capita Gross National Income – inching up with wide state differences

India's per capita income (Base Year: 2011-12 at current prices) has recorded double-digit growth at rate of 10.50% since base year and reached INR 1,93,043 for the year 2022-23. Madhya Pradesh grew at the rate of 13.17% followed by newly formed state of Telangana (13.13%), Karnataka (12.42%) and Jharkhand (12.09%).

Currently, NCT Delhi leads in the per capita income league table with Rs 4,44,768 in FY23, followed by Telangana (Rs 3,12,398), Karnataka (Rs 3,01,673), Haryana (Rs 2,96,685) and Tamil Nadu (Rs 2,75,583), as depicted in **Figure 1.9**.

On the other hand, large states UP and Bihar, which together make up 25 per cent of the population, are at per capita incomes of Rs 83,565 and 54,111 respectively.

1.2.3 Employment and Unemployment- Increase mainly in Women LFPR

There is an increasing trend in the Labour Force Participation Rates (LFPR) and Worker Population Ratio (WPR).

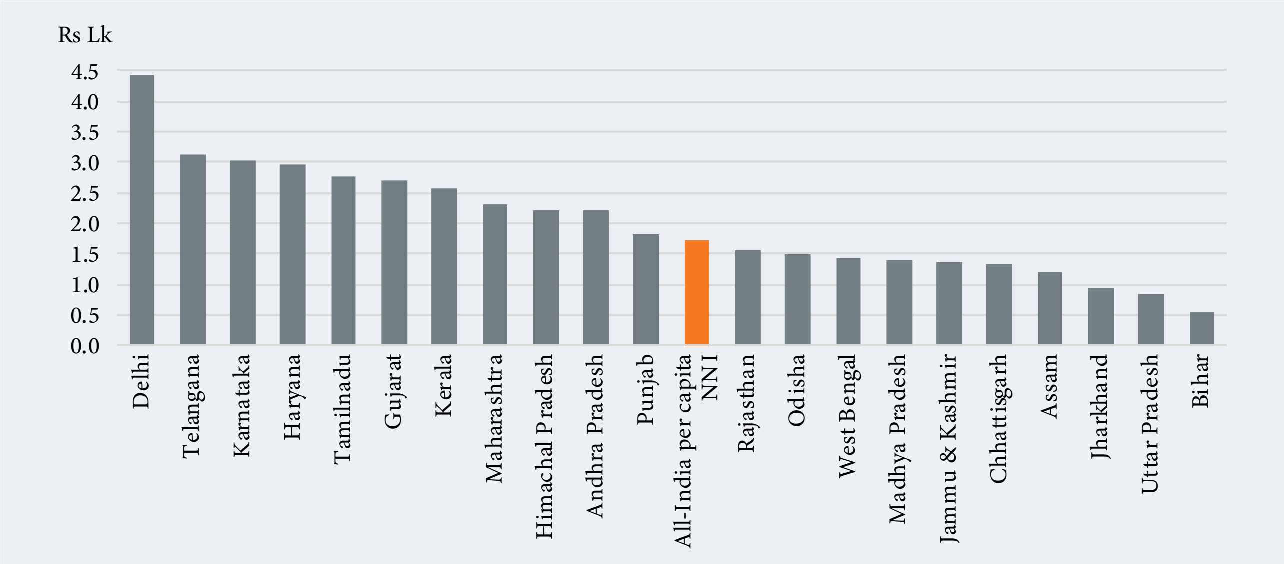
In rural areas, LFPR increased from 50.7% in 2017-18 to 60.8% in 2022-23 while for urban areas it increased from 47.6% to 50.4%. LFPR for males in India increased from 75.8% in 2017-18 to 78.5% in 2022-23 and corresponding increase in LFPR for female was from 23.3% to 37.0%.[13]

Similarly, in rural areas, WPR increased from 48.1% in 2017-18 to 59.4% in 2022-23 while for urban areas it increased from 43.9% to 47.7%. WPR for males in India increased from 71.2% in 2017-18 to 76.0% in 2022-23 and corresponding increase in WPR for females was from 22.0% to 35.9%.

In rural areas, unemployment rate (UR) decreased from 5.3% in 2017-18 to 2.4% in 2022-23 while for urban areas it decreased from 7.7% to 5.4%. UR for male in India decreased from 6.1% in 2017-18 to 3.3% in 2022-23 and corresponding decrease in UR for female was from 5.6% to 2.9%.

In Urban areas, majority of work force is in regular wage/salary (male 47.1%, female 50.8%), whereas in Rural areas 58.8% of male and 71% female are engaged in self-employment. The distribution of work force between self-employment, regular wage/salary and casual labour among urban males

Figure 1.9: Per Capita Net State Domestic Product (Current Prices) 2022-23



Source: RBI, National Statistical Office (NSO)

[13] Periodic Labour Force Survey (PLFS). "Annual Report 2022-2023"

has been consistent since 2020-21. However, in case of rural females distribution, there is mobility from casual labour and regular wage/salary to self-employment (as own account worker) from 22% in 2020-21 to 28% by 2022-23.

1.2.4 National Multi-Dimensional Poverty Index

According to the NITI Aayog's Report: 'National Multidimensional Poverty Index: A Progress Review 2023', a record 13.5 crore people moved out of multidimensional poverty. During the period 2015-16 and 2019-21, the share of India's population who are multidimensionally poor has declined 9.89 percentage points from 24.85% to 14.96%. It measured simultaneous deprivations across the three equally weighted dimensions of health, education, and standard of living that are represented by 12 SDG-aligned indicators. These include nutrition, child and adolescent mortality, maternal health, years of schooling, school attendance, cooking fuel, sanitation, drinking water, electricity, housing, assets, and bank accounts. All 12 parameters of the MPI have shown marked improvements.

Providing multidimensional poverty estimates for the 36 States and Union Territories and 707 Administrative Districts, the Report states that the fastest reduction in the proportion of multidimensional poor was observed in the States of Uttar Pradesh, Bihar, Madhya Pradesh, Odisha, and Rajasthan – **Table 1.3**.

1.3 An analysis of banking sector credit flow

India has been hailed as one of the fastest-growing economies of current times.[14] In terms of current prices, India had the fifth highest GDP (USD 3,386 billion) in the world in 2022.[15] Real GDP growth rate for India in 2023 is the highest out of the major economies.[16] Theoretically, several growth models have posited that capital accumulation has a causal effect on economic growth. In Gregorio and Guidotti (1995)[17], the authors considered data for 100 high-, middle- and low-income countries and established positive causal effect of domestic

Table 1.3: States with fastest reducing multidimensional poverty

Region	Population Share	Headcount Ratio (% of total population who are multidimensionally poor and deprived)		No. of people who escaped Multidimensional Poverty
		2015-16	2019-21	
Bihar	9.06%	51.89%	33.76%	2,25,11,679
Madhya Pradesh	6.21%	36.57%	20.63%	1,35,69,242
Uttar Pradesh	16.95%	37.68%	22.93%	3,42,72,484
Odisha	3.35%	29.34%	15.68%	62,62,852
Rajasthan	5.82%	28.86%	15.31%	1,08,16,230
All India	**100%**	**24.85%**	**14.96%**	**13,54,61,035**

Source: National Multidimensional Poverty Index: A Progress Review 2023, NITI Aayog.

[14] The World Bank, "India Overview"
[15] 2023, IMF. "Data Mapper"
[16] Ibid
[17] 1995, IMF. J.D. Gregorio and P. E. Guidotti. "Financial Development and Economic Growth, Vol. 23, No. 3"

credit to private sector on average GDP per capita growth. A necessity for expansion of capital base is availability of investible funds. The global banking sector has historically taken charge to promote savings and turn them into investments for the economy through credit. In the Indian economy, banking sector development and economic growth were shown to Granger cause[18] each other by Tripathy and Pradhan (2014)[19]. Hence, for investible funds to be made increasingly available to public and the government, the financial sector of a country must thrive. As of March 2023, INR 136 lakh crore was the total outstanding bank credit extended by the Scheduled Commercial Banks in India.[20] This amount is higher than the outstanding bank credit of March 2022 by 15%, a commendable figure compared to the growth rate of 9.6% in March 2021 over 2020.

Credit flow from Scheduled Commercial Banks (SCBs) is an important measure of economic growth and importantly provides clues on sectors where credit growth is happening.

Personal loans dominate over other sectors

Data from the RBI on sectoral credit flow from SCBs analysed for last 6 years (2017 – 2023) reveals interesting points. First, while in this period, overall credit flow increased at CAGR of 10.22%, various components grew differently with "Personal Loans" growing at highest CAGR of 16.67% as shown in **Table 1.4.**

Table 1.4: CAGR of credit flow to various sectors (2017-23)

Sector	CAGR of credit flow
Agriculture	9.25%
Industry	3.72%
Services	12.27%
Personal Loans	16.67%

Source: Handbook of Statistics on Indian Economy 2022-23, RBI

Personal loans have not only grown at a much faster rate but also increased their share in overall "Non Food Credit". In March 2017, Personal loans accounted for 22.84% of Non Food credit, which has increased to 32.12% by March, 2023. **Figure 1.10** shows the growth of various sectors for the six year period.

Bank credit has since nationalisation been directed towards increasing the productive potential of the economy but in recent years dominance of personal loans begets an important policy question. The only redeeming feature of this trend is that it includes personal housing loans. Are banks shying away from the "real sectors" or it is a case of chasing higher margins? Both scenarios require course correction for economic growth. Personal loan segment also has non-bank players, the so called fintech lenders adding their bit. The last available report of fintech lending[21] shows that personal loans and consumer loans account for 75% of their lending.

Focus on Micro & Small yielding results- still way to go

In the MSME sector, considering the predominance of Micro and Small (~95% of MSMEs are Micro or Small) as well as their potential for inclusive and decentralised development, Micro and Small has always been a focus area for the Government. Various schemes of the Government since 2014 starting with MUDRA and the latest being PM Vishwakarma scheme bear testimony to it. In parallel, SIDBI -the apex bank for MSME has also taken various steps/schemes like onlinepsb loans, Start-up India, Stand Up India, Udyamimitra etc to bolster credit flow to the sector.

The six year data of credit flow to Micro and Small by SCBs shows **(Figure 1.11)** that while their share in overall credit flow to Industry remained constant at around 13% for first four years, it is showing incremental growth in last three years, with March 2023 share reaching almost 18%.

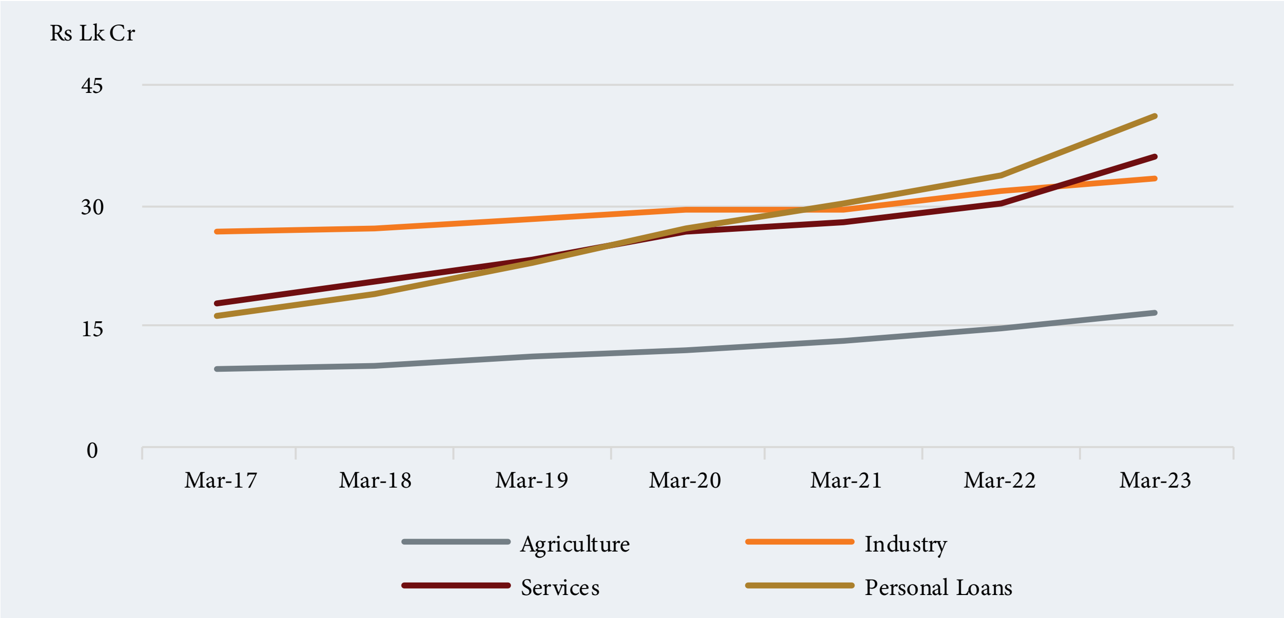
[18] Granger causality is one of the statistical tests used to determine whether a time series can be forecasted using another time series (C. Granger, 'Investigating Causal Relations by Econometric Models and Cross-spectral Methods', Econometrica, 1969)

[19] S. Tripathy and R.P. Pradhan, 'Banking Sector Development and Economic Growth in India', Global Business Review, 2014

[20] 'Sectoral Deployment of Bank Credit – March 2023', 28 April 2023, RBI Press Release

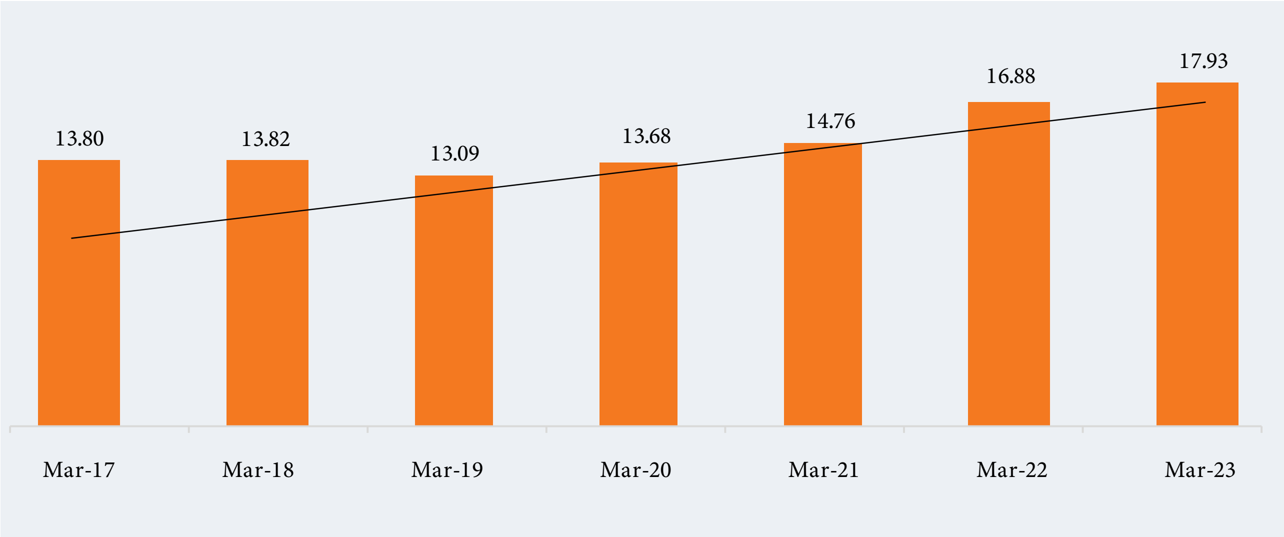
[21] Fintech lending trends H1 2022-23, Equifax

Figure 1.10: Sectoral Credit Growth



Source: Handbook of Statistics on Indian Economy 2022-23, RBI

Figure 1.11: Credit to Micro & Small as % of Industrial credit

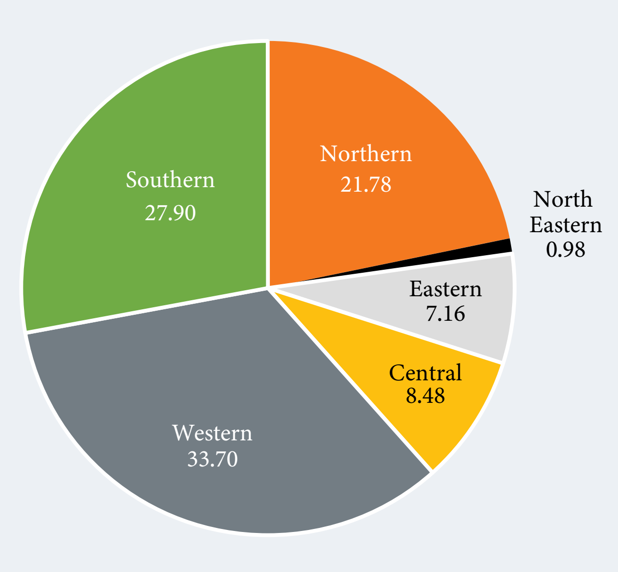


Source: Handbook of Statistics on Indian Economy 2022-23, RBI

Regional skew continues; South displaces West for highest share

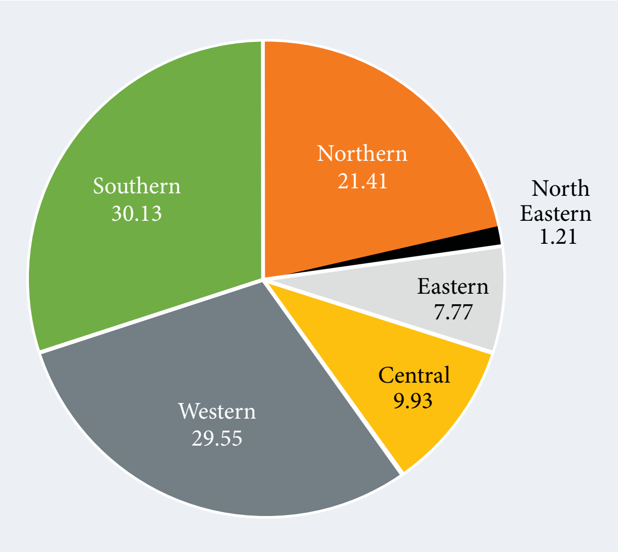
Data for last decade pertaining to regional credit flow used to show a sharp skew in regional distribution of SCBs credit with Western Region topping the list, followed by South, North, Central, East and North East. The shares have more or less remained similar in other regions between March 2018 and March 2023 albeit with South replacing West as having the highest share of credit flow for last 3 years, as shown in **Figures 1.12 & 1.13**.

Figure 1.12: Regional share of credit flow as of March, 2018



Source: Banking & Statistical Returns

Figure 1.13: Regional share of credit flow as of March, 2023



Source: Banking & Statistical Returns

Agencies regional share also broadly follow the All-India pattern especially in case of PSBs and Private sector banks, wherein South and West account for ~60%. However, in case of RRBs, there are some marked differences as in case of RRBs, West has a very low share of 6.43%.

Public Sector Banks (PSBs) dominate despite losing market share

Other than regional distribution, the share of various agencies across this period shows **(Table 1.5)** that Public Sector Banks despite losing market share continue to dominate the financial sector, followed by Private Sector Banks. RRBs and SFBs put together account for <5% share.

Table 1.5: Share (%) of Agencies in credit flow

Entity type	Mar-18	Mar-23
PSB	63.23	54.29
Private Banks	29.28	37.81
Foreign Banks	4.20	3.60
RRBs	2.91	2.96
SFBs	0.38	1.34

Summing up

Overall, Indian economy shows positive outcomes on both economic and social parameters. The COVID shock has also been weathered and various economic indicators show a rebound. The key challenge in next few years will be sustaining the momentum, albeit accelerating it, while navigating difficult global disruptions. For this, domestic demand and consumption will play an important part. For this to happen, the role of financial sector will be key in channelling funds to the productive sectors and hitherto deprived regions. Microfinance has to play a key part in this by taking financial services to the excluded regions/population.

02

An overview of financial inclusion in India

2.1 Role of financial inclusion in development

The role of financial development and deepening of outreach in catalysing financial activity in the economy is widely accepted. Access to credit encourages the borrowers at the bottom of the pyramid to invest in entrepreneurial ventures or to strengthen their existing livelihood. Such businesses offer them the possibility of earning a higher income as compared to the alternative option of employment at low wages (Banerjee and Newman, 1993[22]). Easier access to credit also helps newer segments of the population to avail the services of formal financial institutions. Multiple research studies have established the positive impact of credit availability on poverty reduction, women empowerment, household health, children's education and other human development indicators (Honohan, 2004[23]; Demirguc-Kunt et al., 2008[24]).

Such positive impact is also tautologically corelated with reducing inequality and thereby promoting broad based growth. Growth with inequality can have negative consequences. Inequality slows growth, makes it more volatile and creates unstable conditions for a sudden slowdown in GDP growth [Stiglitz, 2012[25]].

Though Financial Inclusion has a broader meaning encompassing credit, savings, insurance, pension etc., most studies have examined the causality between credit growth and GDP growth establishing the link between Access to Finance and growth. **Figure 2.1** shows the results of one such study.

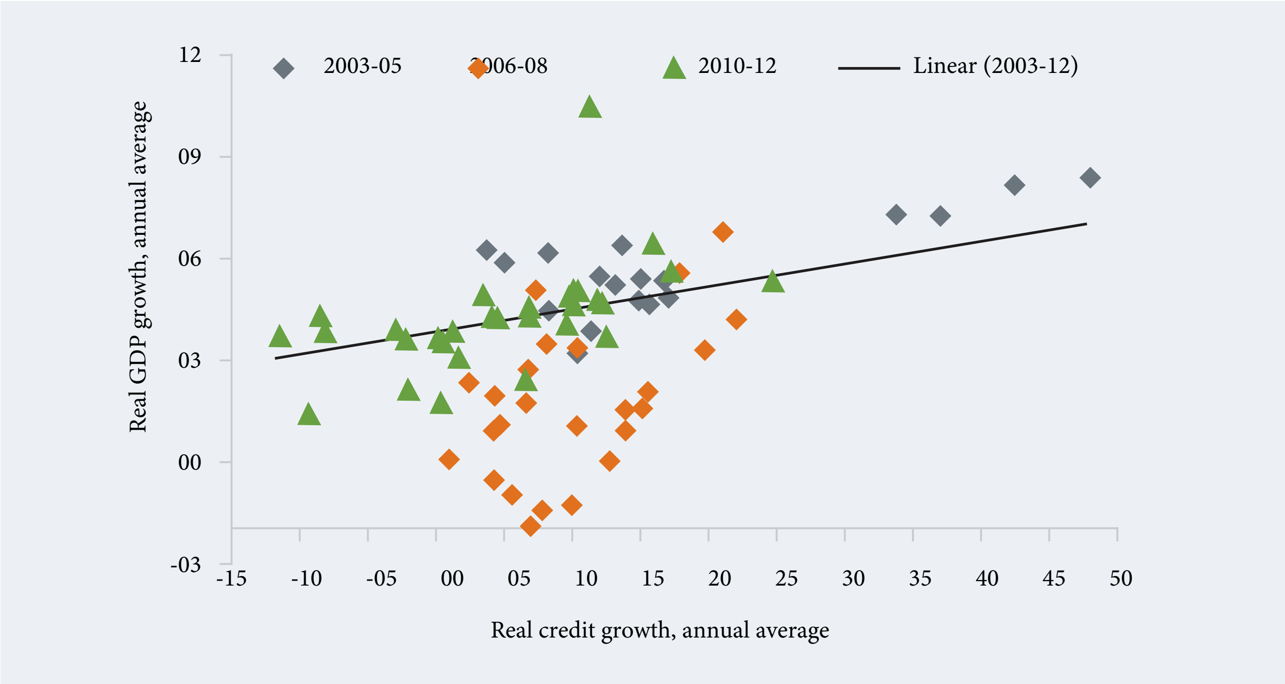
[22] 1993. Banerjee, A. V. and Newman, A. F. "Occupational choice and the process of development. Journal of Political Economy, 101(2)".

[23] 2004, The World Bank. Honohan, P. "Financial development, growth and poverty: How close are the links?. In: Policy Research Working Paper WP3203."

[24] 2007. Beck, T., Demirguc-Kunt, A., Levine, R. "Finance, inequality and the poor. J. Econ. Growth 12 (1), 27–49"

[25] 2012. Joseph Stiglitz. "The Price of Inequality. London: Allen Lane. 414pp."

Figure 2.1: Credit Growth and GDP Growth (Percent)



Source: Garcia-Escribano & Fei Han, 2015 [31 Emerging Markets*, 2003-2012]

Thus while credit is shown to be positively related to growth and reducing inequality, composite financial inclusion has emerged as the major policy instrument in recent times. This is so because credit per se should not be used for meeting all types of financial needs, such as medical expenses. Global development discourse now attaches equal importance to other financial services such as savings.

2.1.1 Global progress in financial inclusion

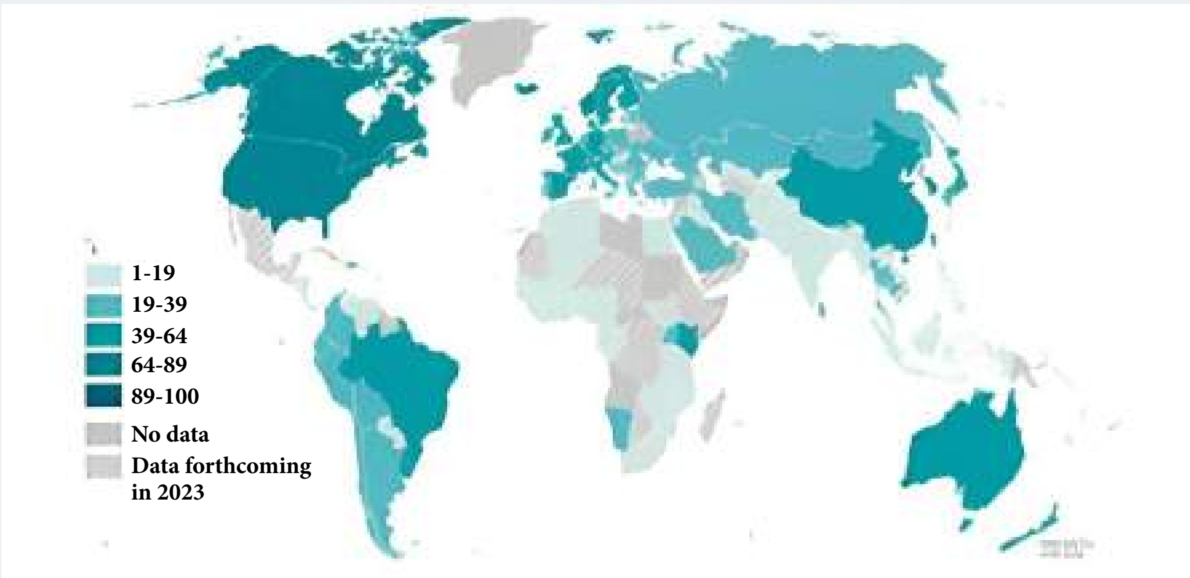
Despite the progress made in improving financial inclusion, in 2021 only about 53 per cent of adults worldwide reported borrowing any money over the past 12 months (Global Findex Database 2021). In developed countries, borrowing from formal sources was pre-dominant **(Figure 2.2)**. The percentage of adults borrowing from formal sources in developing countries continues to be low though it has increased from about 16 per cent in 2014 to 23 per cent in 2021.

On the savings side, the picture is much better with around 76 percent of people worldwide having an account either at a bank or similarly regulated deposit-taking financial institution, including a mobile money service provider. Yet a regional or economy-level view of account ownership shows wide variation. Among the 123 surveyed economies, account ownership ranges from just 6 percent in South Sudan to universal ownership in high-income economies such as Canada, Germany, and the United Kingdom.

Thus, while progress is being made across the globe, much needs to be done especially on the credit side. Importantly, "No Poverty" and "Reduced Inequalities" are two keys goals out of 17 SDGs. The emphasis on financial services is part of sub goals with Digital finance and MSME finance as the two key pillars of G20 financial inclusion plan.

Figure 2.2: Formal Borrowing Around The World

Adults borrowing any money from a financial institution or through the use of a credit card or mobile money account in the past year (%), 2021



Source: Global Findex Database 2021

2.1.2 Indian scenario in financial inclusion

It is to the credit of policy makers in India as well as the regulators, that financial inclusion has remained top priority since Independence. During the course of 75 years, while the emphasis on channels and instruments has changed, the focus has remained. To narrate a few major policy mandates sequentially, focus on cooperatives, nationalization of banks, Priority sector lending, Service Area approach, differential interest rates, formation of Regional Rural Banks (RRBs), formation of NABARD and SIDBI, SHG-Bank linkage programme, creation of NBFC-MFI category, formation of Small Finance Banks (SFBs), Banking Correspondents, PMJDY scheme readily come to mind.

The priorities and instruments have changed with learning from the past. For example, in the initial years, when it was found that commercial banks continued with urban focus, while cooperatives were not able to expand due to their financial and operational constraints, bank nationalization was done in 1969. Interestingly, over last decade, thematic focus change has also happened. For a greater part of 75 years, the emphasis was on credit and rural credit. Significantly, a decade back there was a shift in the policy focusing on savings -bank accounts as also insurance and broad based credit. The pivot of recent years push has been based on Jan Dhan-Aadhar-Mobile (JAM) trinity, which not only enables new fintech players to enter the inclusion space but also provides cost effective solutions to established players.

It is a decade and half years since the first national level report on accelerating financial inclusion came out from the Committee on Financial Inclusion in 2008 (headed by Dr. C. Rangarajan). The committee's report in 2008 noted that a) 51.4% of farmer households are financially excluded from both formal / informal sources, b) 73% of farmers have no access to formal sector credit and c) large skew in financial exclusion across regions, occupations and social groups. In line with the times, the focus of the committee was on credit.

The second landmark report showcasing the real shift from credit to savings was "Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households (LIH)" headed by Dr Nachiket Mor and constituted by the RBI in 2013/14. The report can be considered as a landmark because of two features – 1) it set out aspirational targets across all dimensions of financial inclusion – termed as six vision statements (Annex A) and 2) it talked about key design features which should guide India's financial inclusion journey. For example, the first vision statement is related to savings and bank accounts and it said – "By January 1, 2016 each Indian resident, above the age of eighteen years, would have an individual, full-service, safe, and secure electronic bank account."

On design features, the committee noted "The four design principles that would inform financial inclusion and deepening strategies discussed in the Report are: Systemic Stability, Balance-sheet Transparency, Institutional Neutrality, and Responsibility towards the Customer". The last two design principles brought customer centricity and role of various channels in policy discourse. For any financial inclusion effort, clients have to remain as the fulcrum and need to recognise that each channel – Bank, NBFC, NBFC-MFI, Business Correspondents (BC) etc. have a role to play in solving these challenges for the clients. Policy bias towards any channel is not conducive for a strategy trying to leverage comparative advantage. As an example, while banks may be the prime choice for deposit mobilization, specialized credit like microfinance is the forte of specialized agencies like MFIs or even banks focused on microfinance. Though the design features enunciated are yet to be fully seen in policy [discussed later in the chapter], quite a bit of work has happened in this sphere.

One paragraph from the Mor Committee report is worth remembering and the ecosystem including regulators must keep this in mind. Analysing past efforts, the Committee noted "As one examines the financial inclusion landscape in India, the sheer energy that has been put behind the effort and the seriousness with which providers and regulators have pursued this goal is impressive. However, it is possible that it is this very energy that has been its key weakness as well, because it has propelled highly engaged regulators and policy makers to move from one big idea to another, each time convinced that they have finally found the key to financial inclusion, whether it be cooperative banks, nationalisation of banks, self-help groups, regional rural banks, or business correspondents. While there is no question that there is a continuing need to explore new ideas; learn from the experiences of other nations; and benefit from new technologies; perhaps it is not the best regulatory strategy to centrally pick one approach no matter how convincing it may seem and to push the entire system in that particular direction to the exclusion of all others."

While the focus of this report is mainly on Microfinance, in order to present a broader picture of financial inclusion, the report analyses the progress across outreach, savings, insurance and credit. This is followed by brief summary of microfinance progress and in the last part a few issue/challenges are discussed.

2.1.3 RBI's Financial Inclusion Index: Inching up but need more elaboration

Before delving into granular review, the overall progress as measured by the RBI needs to be seen. At present, there are two sources of seeing broad based progress in financial inclusion; 1) World Bank's global FINDEX, which shows progress on various parameters like bank account ownership, credit offtake etc but does not give a Country score and 2) RBI's financial inclusion index, which is published annually.

RBI's financial inclusion index has been constructed with three sub-indexes – Access, Usage and Quality. Access' sub-index is further divided into four dimensions, viz., 'Banking', 'Digital', 'Pension', and 'Insurance', and reflects the efforts made on the supply side of financial inclusion and has 26 indicators. 'Usage' sub-index is divided into five dimensions, viz., 'Savings & Investment', 'Credit', 'Digital', 'Insurance' and 'Pension' and has 52 indicators and measures demand side. 'Quality' sub-index has three dimensions, viz., 'Financial Literacy', 'Consumer Protection', and 'Inequality' in the distribution of financial infrastructure with 19 indicators. In total, there are 97 indicators.

The progress as reported by the RBI is presented in **Table 2.1.**

While this is a useful index, its utility is a bit reduced as methodological details on what goes in under various parameters with what weight as well as data used for the index is not available. It limits its usability for researchers and practitioners. For 2023, a press release has been issued[26] as "Index for the year ending March 2023 has since been prepared. The value of FI Index for March 2023 stands at 60.1 vis-à-vis 56.4 in March 2022, with growth witnessed across all sub-indices. Improvement in FI Index was mainly contributed by Usage and Quality dimensions, reflecting deepening of financial inclusion." but no further details are available.

2.2 Sub dimensions of Financial Inclusion

2.2.1 Outreach – Focus on BCs; sharp contraction on BC outlets in 2022

Post nationalisation, the focus was on spread of bank branches especially in rural areas. The push for branch banking was predicated on the understanding that the welfare costs of exclusion from the banking sector, more so for the poor are high and need to be addressed through state intervention. The massive regulatory push towards it post 1969 yielded impressive results with "Between 1969 and 1990, bank branches were opened in roughly 30,000 rural locations with no prior formal credit and savings institutions."[27]

However, post 1991 realising the financial unviability of brick and mortar branches and the broader financial sector liberalisation policy, the decade of 90s saw flexibility given to banks to rationalise their branch network. The policy has seen two basic shifts in the last 10 years. First is the emphasis on Business Correspondents (BC) and second is the path breaking Pradhan Mantri Jan Dhan Yojana (PMJDY). While PMJDY progress is covered later, the outreach through banking outlets and BCs shows interesting trends in **Table 2.2.**

Table 2.1: RBI's Composite Financial Inclusion Index

Year	Access	Usage	Quality	FI-Index
Mar-17	61.7	30.8	48.5	43.4
Mar-18	63.9	33.7	51.4	46.0
Mar-19	67.5	38.7	52.6	49.9
Mar-20	71.6	42	53.8	53.1
Mar-21	73.3	43	50.7	53.9
Mar-22				56.4
Mar-23				60.1

Source: RBI

[26] 2023, RBI. "Financial Inclusion Index For March 2023". Accessed on 7th October, 2023
[27] 2004, Robin Burgess and Rohini Pande. "Do Rural Banks matter? Evidence from the Indian social banking experiment".

Table 2.2: Banking Outreach

Banking outlets in	Mar-10	Dec-21	Dec-22
Villages-Branches	33,378	53,249	53,159
Villages>2000-BCs	8,390	15,18,496	13,83,569
Villages<2000-BCs	25,784	3,26,236	2,95,657
Villages - BCs	34,174	18,44,732	16,79,226
Other Modes	142	2,542	2,273
Total	**67,694**	**19,00,523**	**17,34,658**
Urban Locations through BCs	447	14,12,529	4,38,333

Source: RBI Annual Report, 2022-23

First, the impact of RBIs two stage financial inclusion plan – stage 1 covering locations with more than 2,000 population and later <2,000 with banking outlet clearly shows with 2,95,957 banking outlets even in pockets with <2000 population as on December 2022. It is also seen that while bank branches have marginally declined, BC branches show impressive increase and much of the outreach is on account of BC outlets [mentioned as banking outlets in **Table 2.2**].

But even in BC outlets, there is a sharp drop in last figures available as of December, 2022 with rural BC outlets dropping by 9% and urban BC outlets falling by a whopping 31% over December, 2021. Such a massive drop seems unexplainable and the RBI report mentions that this sharp dip is on account of the Private sector banks. Is it on account of viability issues? Quite a few studies have observed that and a 2019 study[28] says "The financial analysis of the existing BCs with the existing products and services in practice shows a very diffusive break-even of more than seven years. Such a long time taken to reach the break-even point can be a potential threat to the sustainability of new and struggling entrepreneurs like a Customer Service Point (CSP)". Another concern has been voiced regarding BCs business being hit by banks offering their own mobile banking apps. The reason needs to be studied in detail and addressed as BCs have been the main plank of outreach in recent years.

2.2.2 Account ownership- Giant leap forward

In order to promote bank account ownership, the Reserve Bank of India came up with the concept of "No Frills account' in 2005 to provide banking facilities to customers with low-income backgrounds. No Frills Account is a type of bank account that requires an individual to maintain a negligible or no minimum balance along with following some simple KYC norms. Later, it was morphed as "Basic Savings Bank Deposit (BSBD) Account" which will offer certain minimum facilities, free of charge, to the holders of such accounts. Later in 2019, the RBI stipulated that in the interest of better customer service, Banks are advised to offer the following basic minimum facilities in the BSBD Account, free of charge, without any requirement of minimum balance.

[28] 2019. "Financial Modelling for Business sustainability - A Study of BC Model of Financial Inclusion in India (Sage)"

- The deposit of cash at bank branch as well as ATMs/CDMs
- Receipt/credit of money through any electronic channel or by means of deposit /collection of cheques drawn by Central/State Government agencies and departments
- No limit on number and value of deposits that can be made in a month
- Minimum of four withdrawals in a month, including ATM withdrawals
- ATM Card or ATM-cum-Debit Card.

Now, the progress under these accounts is reported by the RBI as BSBD accounts **(Table 2.3)**.

Nearly 2/3rd of BSBD accounts have been opened by BCs in a total of 67.86 crore accounts. Though the BCs predominate the number of accounts, the average value of money per account of BC is much lower at Rs.2,860 against branch opened accounts at Rs.4,573. This is understandable as BCs generally work with people from lower economic strata. Unfortunately, there is no data available on total transactions, which could provide information on account usage.

PMJDY progress – Launch of Pradhan Mantri Jan Dhan Yojana in 2014 aimed at covering all excluded population with a bank account completely galvanised the banking scenario in the country. In one year itself, 14.54 accounts were opened and has reached 50.56 crore as of September 27, 2023, as shown in **Table 2.4.**

Two striking features emerge from the numbers; one that share of female account holders under PMJDY is more than males and secondly, the amount of deposits has swelled to nearly Rs 2 lakh crore. However, though it is logical, it is not clear as to whether PMJDY accounts are a subset of BSBD accounts or a distinct category. The giant push towards account ownership has propelled India into the category of countries of high bank account ownership **(Figure 2.3)** in World Bank's Global Findex report, 2021.

Table 2.3: Progress under BSBD Accounts

BSBDA ACs through	Mar-10	Dec-21	Dec-22
Branches (No. in Lk)	600	2,712	2,704
Branches (Rs Cr)	4,400	1,18,625	1,23,653
BCs (No. in Lk)	130	3,919	4,082
BCs (Rs Cr)	1,100	95,021	1,16,777
Total (No. in Lk)	**735**	**6,631**	**6,786**
Total (Rs Cr)	**5,500**	**2,13,646**	**2,40,430**

Source: RBI Annual Report, 2022-23

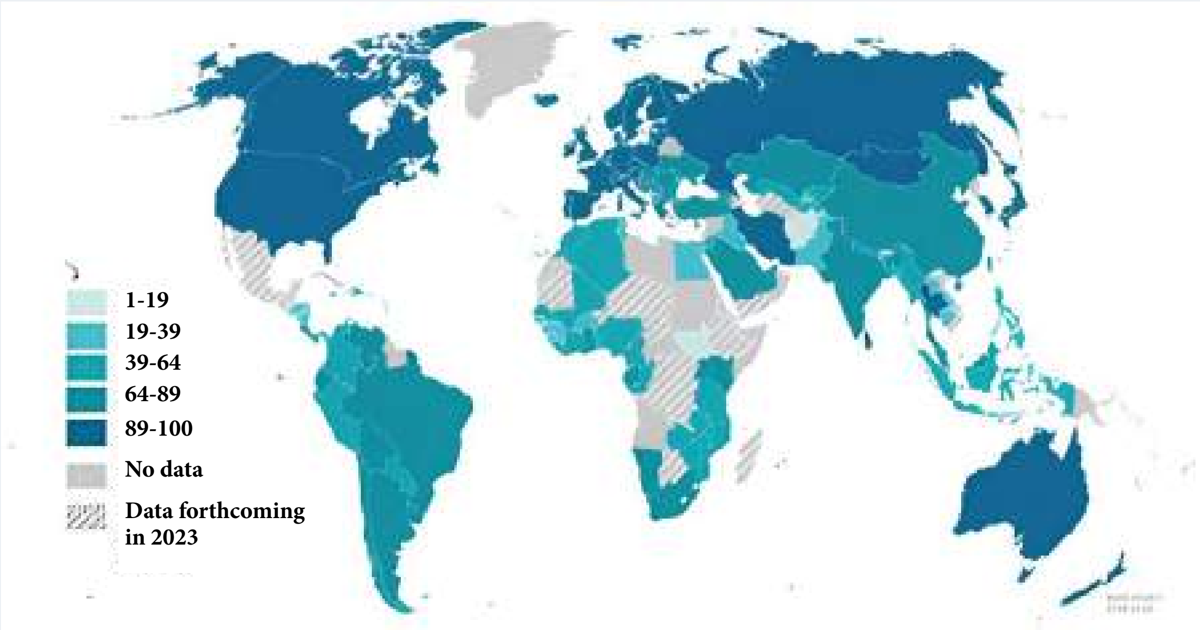
Table 2.4: Progress under PMJDY

Bank type	No. of beneficiaries at rural/semi-urban centre bank branches	No. of beneficiaries at urban metro centre bank branches	No. of rural-urban\ female beneficiaries	Total No. of beneficiaries	Deposits in Accounts (Rs Cr)
Public Sector Banks	24.8	14.7	21.8	39.5	1,59,080
Regional Rural Banks	8.1	1.4	5.4	9.4	39,700
Private Sector Banks	0.7	0.7	0.8	1.4	5,703
Rural Cooperative Banks	0.2	0.0	0.1	0.2	0
Total	**33.8**	**16.8**	**28.1**	**50.6**	**2,04,483**

Source: https://pmjdy.gov.in/account accessed on October 9, 2023

Figure 2.3: Account ownership rates across the world

Adults with an account (%), 2021



Source: Global Findex Database 2021

Global Findex reports account ownership among adults in India at 78% in 2021 – a steep rise from 35.2% in 2011. Further, it also notes that overall account ownership does not vary from national percentage in case of women and poor adults – a huge positive achievement.

2.2.3 Credit – an analysis of small value accounts

While Chapter 1, Section 1.4 is about the overall sector, for analysing the financial inclusion related aspect, a deeper dive is necessary. One way could be to look at various segments of priority sector lending and the other way could be to look at loan size wise distribution. The latter has been chosen for analysis as under priority sector, purpose can also include corporate/bigger loans but small loan sizes is a better and close proxy of financial inclusion. People excluded from formal finance normally start their journey with microfinance or small loans from banks and the data on loan sizes is available on timeline basis from the RBI.

For analysis, three loan sizes have been chosen [<Rs.25,000, 25,000 to 2 lakh and 2 lakh to 10 lakh], wherein the first two loan sizes are traditionally termed as 'Small Borrowal Accounts" or SBA. The analysis for the period March 2012 to March 2023, shows some interesting trends.

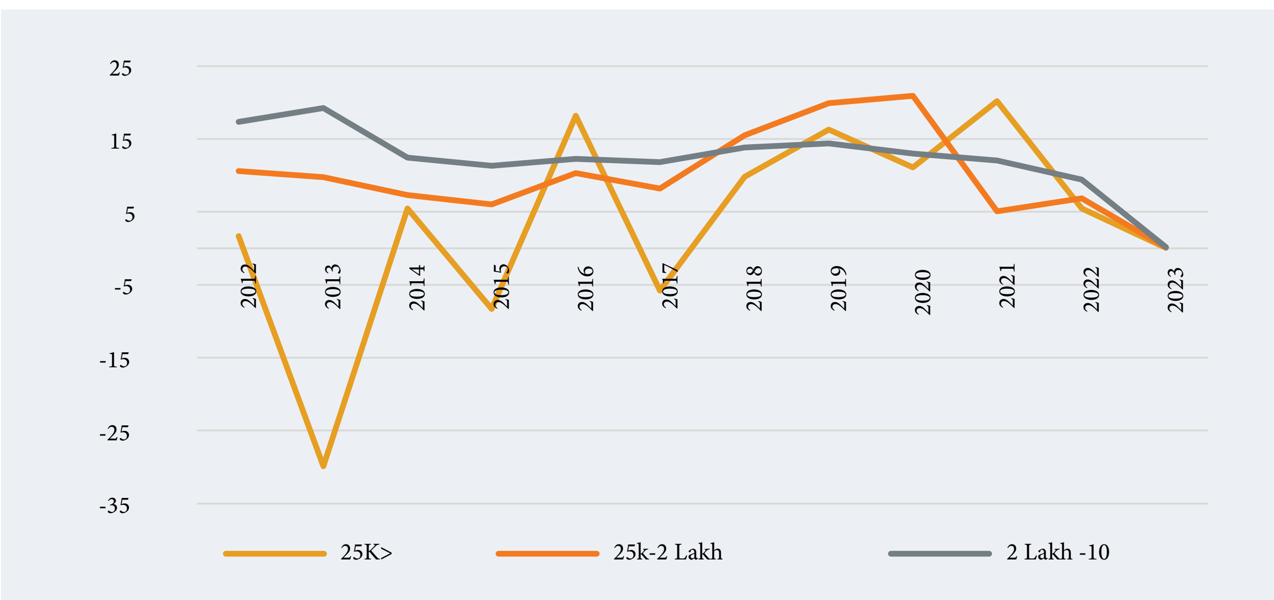
Figure 2.4 is about annual growth in number of accounts and it shows that under all three loan sizes there is a downward trend as of March 2023, while under Rs 25,000 accounts the time line shows high volatility – sudden spike followed by sudden dip.

On a CAGR basis, loan accounts below Rs. 25,000 and Rs.25,000 to Rs.2 lakh have grown by 3.40% and 10.94% respectively in the 11-year period. Loans below Rs. 25,000 though account for 19% of accounts below Rs.10 lakh, in value terms their contribution is mere 1.30%.

However, in absolute terms [if by some stretch up to Rs.2 lakh loan account is considered as financial inclusion account), SCBs contribution is significant with 26.90 crore accounts having credit outstanding of Rs.12 lakh crore as of March, 2023. While the small accounts penetration is significant, the point to be noted is that it also includes 6.65 crore microfinance accounts of banks and Small Finance Banks (SFB).

While these numbers show the credit accounts coverage, another authentic data source -comes

Figure 2.4: Annual percentage growth in accounts of various categories of small loans by SCBs



from All India Debt and Investment Survey[29] which shows incidence of indebtedness (IoI) among rural and urban population as well as share of institutional agencies and non-institutional agencies. A time line comparison of figures as well as state wise patterns shows interesting insights.

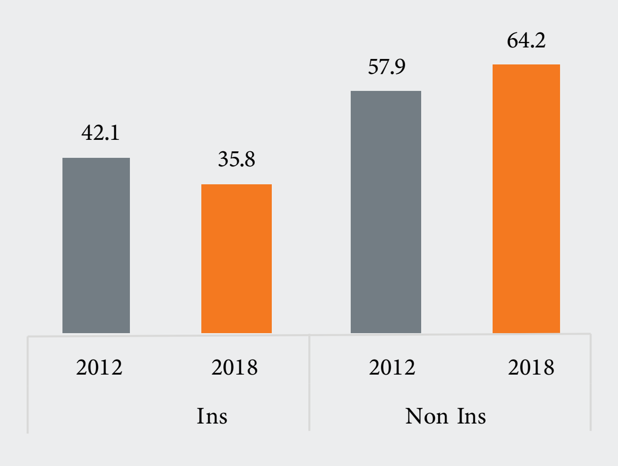
Examining the IoI shows that from 1991 to 2019, All India level IoI increased from 23% to 35% in rural areas, while for urban areas it increased from 19% to 22%. It shows that in 2022, 35% of households in rural India and 22% in urban India had some debt. The state wise figures (**Table 2.5**) shows that IoI decreased in Chhattisgarh across both rural and urban population, while in Gujarat and Maharashtra it decreased in urban. All other major states saw an increase, with Andhra Pradesh, Telangana and Karnataka showing a marked rise in rural IoI.

In supplement to IoI, the share of institutional and non-institutional sources in household debt is more insightful in analysing the impact of policy – as the stated policy objective has been to reduce the share of non-institutional sources or deepen the reach of formal sector institutions.

The review **(Table 2.6)** shows that while the institutional share in increasing over the years, non-institutional sources still account for 33.8% of rural households debt. In urban areas, the share of non-institutional sources is a low 12.9%, which shows higher outreach of formal finance in urban areas.

The state wise position has an important linkage with microfinance. Post 2010, Andhra Pradesh Money Lending Act wrongly covering RBI regulated entities also led to MFIs going into oblivion in Andhra Pradesh and later Telangana was formed out of it. In both these states, during the period 2012-2018, the share of non-institutional sources jumped. While details are given in **Table 2.6,** Andhra Pradesh position is shown in **Figure 2.5**.

Figure 2.5: Share of Institutional and Non Institutional debt in Andhra Pradesh



Source: NSS Report no. 588, All India Debt & Investment Survey 2019

In Andhra Pradesh, the share of non-institutional sources in rural household debt went up from 57.9% in 2012 to 64.2% in 2018, the period coinciding with stoppage of microfinance. In Telangana, formed later, the share of non-institutional sources is equally high at 59%. This shows the importance of microfinance in deepening the reach of formal sector and the adverse consequences of state level one sided intervention. Luckily, the recent judgement of Telangana High court after 13 years has ruled that in case of REs, RBI is the authority to regulate and not State Governments.

Similarly, the positive impact of microfinance can only seen in States like Bihar [Bihar is the state with highest share of microfinance portfolio]. In Bihar, the share of institutional agencies jumped from 22.2% in 2012 to 47.4% in 2019.

Thus, while credit inclusion is also inching up, there is much scope left. The progress on credit side is also seen in steady rise in India's credit to GDP ratio, which stands at 99.5% in 2022[30].

[29] Household Indebtedness in India, NSS 70th round,2013 and All India Debt and Investment survey, NSS 77th round, 2019. 70th round of NSS included AIDIS.

[30] BIS, Credit to GDP Trend

Table 2.5: Incidence of indebtedness (IOI) (%)

State	Rural				Urban			
	1991	2002	2012	2019	1991	2002	2012	2019
Andhra Pradesh	35	42	54	63	31	30	40	45
Assam	6	8	10	19	6	6	18	20
Bihar	16	22	29	30	8	10	13	16
Chhattisgarh	-	20	14	17	-	13	12	21
Gujarat	17	28	26	27	22	21	19	16
Haryana	28	27	24	32	10	16	13	20
Jharkhand	-	12	18	21	-	7	12	17
Karnataka	28	31	46	48	20	19	27	23
Kerala	31	39	50	55	32	37	47	48
Madhya Pradesh	21	26	25	39	14	18	15	20
Maharashtra	22	28	31	33	21	16	19	19
Odisha	23	26	26	41	15	19	19	21
Punjab	25	26	33	35	14	13	18	21
Rajasthan	30	34	37	43	14	17	23	22
Tamil Nadu	30	31	40	37	25	26	35	27
Telangana	-	-	59	67	-	-	31	30
Uttar Pradesh	19	23	30	31	14	13	19	16
West Bengal	26	22	24	23	17	17	15	17
India	**23**	**27**	**31**	**35**	**19**	**18**	**22**	**22**

Source: NSS Report Nos. 570 & 588: Household Assets & Liabilities in India; National Sample Survey

Table 2.6: Share of Institutional and Non-Institutional sources in household debt

State	2018				2012			
	Rural		Urban		Rural		Urban	
	Institu-tional	Non institu-tional	Institu-tional	Non institu-tional	Institu-tional	Non institu-tional	Institu-tional	Non institu-tional
Andhra Pradesh	35.8	64.2	57.6	42.3	42.1	57.9	69.3	30.7
Assam	88.3	11.7	98.7	1.3	72.3	27.7	89.3	10.7
Bihar	47.4	51.5	77.2	22.5	22.2	77.8	70.7	29.3
Chhattisgarh	81.7	18.3	95.1	4.9	66.3	33.7	93.2	6.8
Gujarat	82.3	17.7	93.3	6.7	63.9	36.1	91.6	8.4
Haryana	71.0	28.9	88.0	12.0	52.4	47.6	93.5	6.5
Jharkhand	59.4	40.6	96.3	3.7	51.3	48.7	82.8	17.2
Karnataka	67.2	32.5	88.2	11.7	50.4	49.6	73.1	28.9
Kerala	86.8	13.2	84.1	15.8	77.9	22.1	88.5	11.5
Madhya Pradesh	65.6	34.4	90.1	9.5	51.5	48.5	86.2	13.8
Maharashtra	86.1	13.8	96.6	3.4	73.4	26.6	95.8	4.2
Odisha	59.2	40.8	89.1	10.9	57.4	42.6	95.5	4.5
Punjab	71.5	28.3	89.2	10.8	64.1	35.9	80.9	19.1
Rajasthan	53.4	46.6	88.5	11.5	30.9	69.1	59.3	40.7
Tamil Nadu	72.9	27.1	87.2	12.8	61.5	38.5	77.5	22.5
Telangana	40.7	59.2	73.5	26.5	31.7	68.3	79.8	20.2
Uttar Pradesh	62.8	37.2	84.9	15.0	56.9	43.1	89.7	10.3
West Bengal	75.1	24.9	94.5	5.5	50.7	49.3	87.4	12.6
All-India	**66.1**	**33.8**	**87.1**	**12.9**	**56**	**44**	**84.5**	**15.5**

Source: NSS Report no. 588, All India Debt & Investment Survey 2019

2.2.4 Insurance – Inching up but some way to go

Insurance as a risk mitigation tool is an important financial tool for a developing country like India to protect against shocks of health and other risks like natural disasters. It is routinely seen that a major and sometimes even minor shock leads to frittering away of economic gains made by the household over years, if not decades. Absence of insurance is thus counterproductive to sustainable economic growth. Availability of insurance products is also key as in absence of it, people first use their savings and then also borrow to meet their financial needs. Use of credit to meet expenses of health care or any other adverse event like crop loss often leads to indebtedness beyond capacity to repay.

Insurance regulator IRDA and Government of India have taken significant steps in recent years to increase insurance coverage. While the list of various initiatives is long, a few key steps are:

- PM Bima Yojana is available to people in the age group of 18 to 50 years having a bank account and has a life cover of Rs. 2 lakhs.
- The government's initiative for crop insurance, Pradhan Mantri Fasal Bima Yojana (PMFBY), provides a comprehensive insurance cover against failure of the crop thus helping in stabilising the income of the farmers. The Scheme covers all Food & Oilseeds crops and Annual Commercial/Horticultural Crops for which past yield data is available.
- Pradhan Mantri Suraksha Bima Yojana (PMSBY) provides risk cover of Rs.2 lakh for accidental death and full disability and Rs. 1 lakh for partial disability.
- Ayushman Bharat (Pradhan Mantri Jan Arogya Yojana) (AB PMJAY) aims at providing a health cover of 5 lakh per family per year for secondary and tertiary care hospitalization.
- IRDA has set targets for micro insurance for each insurance company, introducing use and file to usher in an age of product innovation in the industry, product innovation through add-ons in motor insurance, proposal on the dematerialisation of insurance policies, product innovation through add-ons in motor insurance; proposal on the dematerialisation of insurance policies.
- IRDA is also conceptualising "Bima Sugam". It's an online platform where customers can choose a suitable scheme from multiple options given by various companies. All insurance requirements, including those for life, health, and general insurance (including motor and travel) will be met by Bima Sugam. This platform will also help in the settlement of claims, whether it's health coverage or death claims, in a paperless manner on the basis of policy numbers.

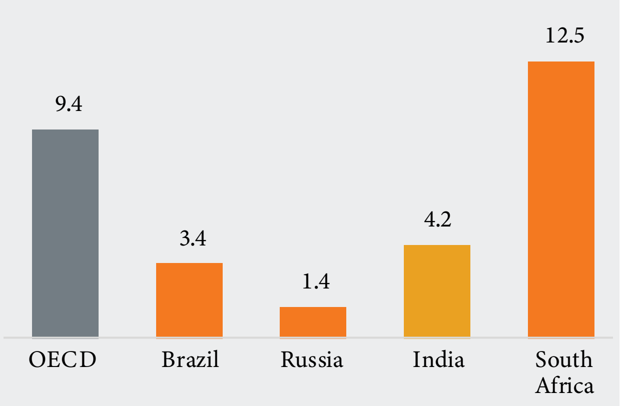
Commentators have described the recent flurry of activities as "firing on all cylinders" on the insurance front. IRDA in its press note of 7th April, 2022 has set an ambitious goal for insurance coverage by stating "when India celebrates 100 years of its independence in 2047, every Indian has appropriate life, health and property insurance cover and every enterprise is supported by appropriate insurance solutions."

Insurance penetration is traditionally measured as ratio of premium in the country to GDP as also as insurance premium per capita. Both these measures fail to capture the percentage of population covered. Coverage under various schemes is available like 44.6 crore persons were covered under PM Suraksha Bima and PM Jeevan Jyoti Yojana during the FY 22-23[31], but accounting for duplication of coverage etc in such isolated scheme wise numbers is not possible. Plus, it does not allow for cross country comparisons.

With this limitation, if we see insurance premium as a percentage of GDP and compare it with other countries **(Figure 2.6)** for 2022, the performance of India on this parameter seems reasonable compared to other BRICS countries other than South Africa. OECD bloc consists majorly of developed economies and can only be used as a benchmark. Notably, despite a slew of measures, the penetration ratio for India has moved from 3.8% in 2011 to 4.2% only in 2022.

[31] 2023, May. IBEF. "Insurance Industry Report". Accessed on 9th October, 2023

Figure 2.6: Insurance Penetration OECD and BRICS (China data not available)



Source: OECD Stats, Insurance indicators (penetration)

2.3 Role of microfinance

In last year's edition of this report, the findings of an econometric study by NCAER on contribution of microfinance to India's GDP were presented. Microfinance through both strands besides economic contribution, has a significant contribution to achievement of SDGs. The following paragraphs link microfinance contribution to SDGs. Before getting into SDGs, the contribution of microfinance to financial inclusion is briefly discussed.

The MFI model based on Joint liability groups has gone through significant progress over the years, both in terms of outreach as well as number of players. While in 2010, NBFC-MFIs were the sole REs active in this space, Banks, SFBs and NBFCs have not down streamed to microfinance. The role of RBI as regulator in promoting the sector has been immense through various measures, culminating with its new Microfinance regulations in March 2022, making microfinance rules applicable to all sans difference in legal forms.

As of March, 2023, MFI model catered to 6.6 crore unique borrowers[32] with a loan outstanding of Rs. 3.48 lakh crore as shown in **Table 2.7**. What is more impressive is that the outreach is spread across 729 districts in the country. Performance and future outlook are extensively discussed in Chapters 3 & 5.

The other strand of Microfinance, SHG-Bank Linkage Programme (SBLP) despite the churn from being NABARD led to NRLM led has 4.2 million SHGs credit linked with total loans outstanding of Rs. 1.88 Lk Cr as shown in **Table 2.8.**

Table 2.7: Overall status of portfolio, unique borrowers and loan accounts

Type of entity	31-Mar-22				31-Mar-23			
	No. of entities	Unique Borrowers (Cr)	Active loan accounts (Cr)	Portfolio O/s (Rs Cr)	No. of entities	Unique Borrowers (Cr)	Active loan accounts (Cr)	Portfolio O/s (Rs Cr)
NBFC-MFIs	84	2.7	4.2	1,00,407	82	2.9	5.1	1,38,310
Banks	12	2.9	4.3	1,14,051	13	3.2	4.7	1,19,133
SFBs	9	1.4	1.8	48,314	9	1.6	2.0	57,828
NBFCs	58	0.7	0.8	19,698	69	0.9	1.0	29,440
Others	39	0.1	0.2	2,971	38	0.1	0.2	3,629
Total	**202**	**5.80**	**11.3**	**2,85,441**	**211**	**6.6**	**13.0**	**3,48,339**

Source: MFIN Micrometer/Equifax

[32] UB means a borrower having more than one loan account is counted only once.

Table 2.8: Highlights of the SHG-Bank Linkage Programme 2022-23

Particulars	Physical (No. in Lk)	Financial (Rs Cr)
Total number of SHGs saving linked with banks as on 1 Mar'23, of which	**134.0**	**58,893**
Exclusive Women SHGs Under NRLM/SGSY Under NULM/SJSRY	112.9 82.0 7.4	52,455 37,425 3,547
Total number of SHGs credit linked during 22-23, of which	**43.0**	**1,45,200**
Exclusive Women SHGs Under NRLM/SGSY Under NULM/SJSRY	41.4 34.9 2.0	1,39,316 1,16,479 8,627
Total number of SHGs having loans O/s as on 31 March 2023, of which	**69.6**	**1,88,079**
Exclusive Women SHGs Under NRLM/SGSY Under NULM/SJSRY	65.2 55.5 3.4	1,79,468 1,50,507 11,077

Source: 2023, NABARD. "Highlights of SHG Bank Linkage Programme". Accessed on 9th October, 2023

Role in meeting SDGs

Against the backdrop of the 2030 Agenda for Sustainable Development, both developed and developing countries unanimously stand in pursuit of the Sustainable Development Goals (SDGs), an urgent call for action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. With India assuming the G20 presidency for the very first time in 2022, the focus on SDG goals has further increased with digital transformation, low carbon economic model, women-led governance with gender equality and women empowerment being some of the key highlights.

CGAP @2016 paper on 'Achieving the Sustainable Development Goals: The Role of Financial Inclusion' recognises that greater access to financial services is a key enabler for SDGs. With the increasingly clear link between financial inclusion and development, there can be a direct impact on outcomes such as health, education, and gender equality and an indirect role in achieving broader goals such as inequality, growth, and peace, building a strong case that financial inclusion helps create the conditions that ultimately bring many of the SDGs within reach.

Microfinance has directly or through indirect linkages been instrumental in achieving the SDG goals.

1 NO POVERTY

Microfinance Providing microcredit to 6.6 Cr women in India

As per the Global Multidimensional Poverty Index 2022, in India 415 million people exited poverty between 2005/06 and 2019/21, demonstrating that the Sustainable Development Goal target 1.2 is possible to achieve, and at scale.[33] Though there are multiple factors responsible for this, the contribution of Microfinance in poverty alleviation will remain significant as with access to financial services, the poor can invest in income-generating activities and improve their livelihood, build assets, and cushion themselves against external shocks.

RBI's Consultative Document[34] on Microfinance defines it as "an economic tool designed to promote financial inclusion which enables the poor and low-income households to come out of poverty, increase their income levels and improve overall living standards. It can facilitate achievement of national policies that target poverty reduction, women empowerment, assistance to vulnerable groups, and improvement in the standards of living."

About 6.6 Cr customers were benefitting from Microfinance loans with the industry having a Gross Loan Portfolio of Rs 3,48,339 Cr as of 31st March 2023.

The industry's role in meeting the goal through building resilience to economic, social and environmental shocks and disasters is well established. Whether it was demonetization which affected the cash-dependent low-income households or COVID 19 which impacted rural livelihoods, or the catastrophic impact of natural disasters like cyclones and floods, the industry has always stood by its customers with additional credit lines and on-ground relief support, building a stronger and resilient borrower.

An NCAER[35] report found the present and potential contribution of microfinance to the macroeconomy as significant, especially considering its focus on meeting the credit needs of the lower income households and smaller enterprises. Microfinance also complements the efforts of public policies aimed at overall development and poverty reduction.

4 QUALITY EDUCATION

Skilling, Upskilling & Financial Literacy

Microfinance has been a driver of financial literacy in rural India. As access to credit became possible for those at the bottom of the pyramid, it was only natural for microfinance institutions to invest in financial literacy to ensure that borrower interests were protected, and credit was managed well.

Microfinance Institutions' model of conducting Compulsory Group Training (CGT) and centre meetings has proved to be an asset in spreading financial awareness among the women borrowers. Basic financial literacy is provided during group formation process. This knowledge and interest in financial services paved the way for digitalization, making the transformation journey easier for the borrowers.

[33] 2022, UNDP. "Global Multidimensional Poverty Index"

[34] 9 2021, 14 June. RBI. "Consultative Document on Regulation of Microfinance".

[35] 2021, NCAER. "Present and Potential Contribution of Microfinance to India's Economy"

Each Institution regularly holds skill training as part of its CSR activities, entrepreneurship development programmes and digital literacy training. The RBI under its DEA fund is also planning to support MFIN in conducting around 2100 DEA workshops across more then 200 districts in India.

Women in Microfinance are at the core of its delivery model. Microfinance services are primarily extended to women through JLG (joint liability group) and in doing so not only does the industry position her centre stage in her household but empowers her to run it.

Microfinance enables poor women to engage in income-generating activities that help them become financially independent, strengthening their decision-making power within the household and society. Consequently, microfinance has the potential to reduce gender inequality (GI).[36]

ILO's report says, "By increasing women's access to financial services, microfinance ultimately contributes to ILO core values of greater gender equality and non-discrimination." It further adds, "Microfinance has the potential to make a significant contribution to gender equality and promote sustainable livelihoods and better working conditions for women."[37]

Besides equal rights to economic resources and financial services, the industry also promotes empowerment of women through technology. Access to credit and digital literacy go hand in hand in today's technology-driven world. With the industry rapidly turning digital, women as its last mile customers are equally adept at using this technology for availing services. This revolution of rural women owing mobiles, having access to information and decision making is truly inspiring.

Lending for WASH purposes has grown exponentially over the past decade. Microfinance institutions are playing a critical role in this regard by having a separate WASH product line with financial support from specialised agencies like Water.org.

Water.org plays a critical role in providing all required technical support to develop innovative finance solutions to serve fast-evolving demand in this space through their transformative solution called WaterCredit. As the first solution to utilize microfinance tools for the water and sanitation sector, WaterCredit helps bring small loans to those who need access to affordable financing and expert resources to make household water and toilet solutions a reality. It is a pay-it-forward system that makes it possible to help more people in ways that will last.

According to the World Bank, the current financing gap for achieving universal access to safely managed water and sanitation is $85Bn, necessitating the mobilization of household financing to meet the need. Microfinance institutions have been collaborating with other institutions for extending water and sanitation loans to address this deficit.

It is through microfinance that over 6.6 Cr women in India have been able to explore various **livelihood options and decent work opportunities** resulting in higher incomes, raised self-esteem, and empowerment while building their credit history with CICs.

Microfinance allows them to invest in their business and purchase new equipment. Many entrepreneurs have risen in scale to provide employment to others, leading to increased productivity and higher income. These microenterprises drive the local economy. To demonstrate the impact of collateral-

[36] 2027. Quanda Zhang and Alberto Posso. "Microfinance and gender inequality: Cross-country evidence. Applied Economics Letters, Vol.24(20), pp.1494-1498;2017"

[37] 2008, ILO, Geneva. "Small Change, Big Changes: Women and Microfinance"

free loans on small enterprises, MFIN has produced a television commercial on women entrepreneurs, their hardships, and the contentment they experience with the improvement in their quality of life.

The Microfinance industry employs over 3 lakhs people including loan officers who are the fulcrum of the credit delivery model. Most loan officers are rural youth, who are provided fresh employment opportunities, sometimes immediately after they complete their senior secondary education or graduation. This access to decent work early-on in life builds their confidence and allows them to manage their households, build their careers and pursue further education simultaneously. The industry prides itself in this productive job creation and skilling of local youth, encouraging them to play an active role in the economic development of their country.

NCAER study titled 'Present and Potential Contribution of Microfinance to India's Economy' found that 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.

10 REDUCED INEQUALITIES

Large rural populations have been bereft of credit services which their urban counterparts have always enjoyed, putting them at a serious disadvantage. Financial exclusion also keeps them from experiencing social inclusion. Microfinance has played an important role in trying to end this financial and social discrimination by taking formal credit to rural hinterlands. It is through micro-loans that Microfinance has contributed to reducing the income disparity.

Microfinance has provided access to financial services to marginalized communities, including women, rural populations, and low-income households, which has helped to reduce inequalities. Various studies have documented the increase in income and social parameters of microfinance clients.

In addition to the direct impact on these SDGs, microfinance also indirectly impacts other SDGs. For example, work under SDG 6 enabling access to safe water and improved sanitation structures prevents water-borne diseases and thus contribute to SDG 3: Good Health and Wellbeing.

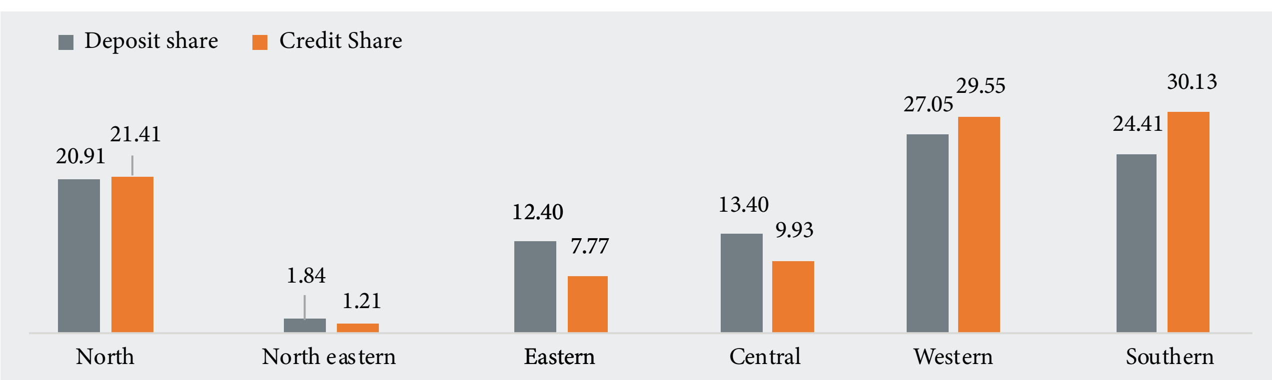
2.4 A few policy Issues for furthering financial inclusion

The review presented in this chapter and issues discussed in other chapters, point towards a few policy issues. Issues like Qualifying Assets norms for NBFC-MFIs are discussed in detail in later chapters and being too specific are not presented here.

Regional skew persists

Analysis of deposits and credit of SCBs shows that despite policy push, the credit flow has not taken to the desired extent in eastern and central regions of India (**Figure 2.7**).

Figure 2.7: Regional Share in Deposit and Credit of SCBs



Source: RBI

While it is acknowledged that credit flow follows economic activity but still the role of finance to spur economic activities cannot be underplayed.

It is important to note that in case of microfinance, East and North East account for 35% of all India credit share.

Hard look needed at BC Model

The fluctuating numbers with 2022 seeing a steep fall in number of BC outlets calls for a comprehensive review of BC framework. Various reports have pointed to the unviable business structure and the same has been accentuated with banks' proprietary digital app. The fee paid by a bank to its BC has to cover the costs of running a BC outlet and ensure a reasonable return to the BC. Population segment being catered to by BCs, sees them as extension of banks and high turnover may lead to loss of faith in the BC network.

Focus of SCBs lending needs to shift from consumer loans

Starting from a small range of annual growth across Agriculture, Industry, Services and Personal loans till 2014 in SCBs credit composition, the growth rates have now diverged widely. Personal loans have not only grown at a much faster rate [CAGR of 16.67% between 2017 and 2023] but also increased their share in overall "Non Food Credit". In March, 2017 Personal loans accounted for 22.84% of Non Food credit, which has increased to 32.12% by March, 2023.

The growth in consumption loans at the cost of agriculture and industry is not conducive for India's growth story and the limits of consumption led growth are being seen now. There is no substitute to according high priority to productive sectors of the economy; especially when they are credit starved.

Steps to increase robustness of credit underwriting of BOP clients

Realising the importance of building a verifiable credit history of microfinance borrowers, MFIN took the initial step in 2011 to seed a credit bureau [now CRIF High Mark] and as a result as of today all REs active in microfinance report data to all four bureaus. All microfinance clients KYC, past loan details and repayment record is now available with the bureaus totalling around 10 crore – both active and dormant clients. To further strengthen credit underwriting, MFIN has moved beyond regulatory norm of monthly data submission to bureaus and asked its members to submit daily files. This is important as the sector deals with vulnerable clients and higher time gaps in submission can lead to underestimating correct debt obligation and thereby lead to over indebtedness. This has become more pertinent in the wake of new RBI regulations prescribing that loan repayment obligation should not exceed 50% of household income.

There are three critical areas of concern here. First, despite the Reserve Bank of India, in its circular on Credit Information Reporting in Respect of SHG Members, issued on 14th January, 2016, mandating all scheduled commercial banks including regional rural banks to collect and report credit information of individual SHG members to Credit Information Companies (CICs) beginning from 1st July, 2016, this is still to be implemented.

Secondly, the problem has got compounded with so called "fintechs", while their loan sizes are even smaller than microfinance loans in most cases, they report data under retail segment of credit bureau and not microfinance loans.

Both these issues put together lead to a substantial chunk of portfolio being not present in microfinance bureau, which can lead to over-indebtedness despite bureau checks.

Finally, it is suggested that the RBI should mandate all REs active in microfinance lending to adhere to daily reporting as monthly report is not ideal in case of microfinance clients, where an amount of 50,000 not captured can make the difference between responsible finance and over indebtedness.

Channel neutrality – Fintech operating in microfinance market sans regulation

RBI regulations define digital lending as "a remote and automated lending process, majorly by use of seamless digital technologies". While the definition given by the RBI also makes MFIs digital lenders; as client onboarding, credit bureau check, loan disbursement and repayment are all digital, the reference here is to lenders who typically lend without physical presence based on apps. Industry reports have pointed out that more than 60% of digital lending through platforms and mobile apps is to low-income, new-to-credit (NTC) borrowers, which is the microfinance segment as defined by the RBI [HHs having annual income less than Rs 3 lakh]. Lending to such customers using a remote and automated process is not only a potent mix, it is also done without adhering to microfinance regulations like household income assessment and repayment capacity check. The use of surrogate indicators is a poor replacement for in-person interactions and runs the risk of nudging borrowers inadvertently into over-indebtedness.

Lending to NTC low-income borrowers has to operate as a 'seller beware' model, keeping in mind their level of financial literacy. For an NTC borrower, this literacy is acquired over a period of time through experience with financial products, peer-group discussions and regular interactions with the lender. Avoidance of these and lending in same market gives rise to regulatory arbitrage and runs the risk of client over indebtedness. RBI needs to review the whole digital market dynamics, identify the overlap with microfinance and in such cases enforce microfinance regulation on them.

Stepping up Microfinance

The role of microfinance in increasing the share of formal credit to the BoP is not only well known but also empirically proven through AIDIS date presented in the chapter. In Andhra Pradesh, where microfinance operations were halted, share of informal sector grew substantially. In Bihar, which has high microfinance portfolio, the share of formal sector has grown.

Policy support by way of a well-designed credit guarantee scheme and assured financial support by way of a dedicated fund facility will further strengthen the cause of financial inclusion.

03

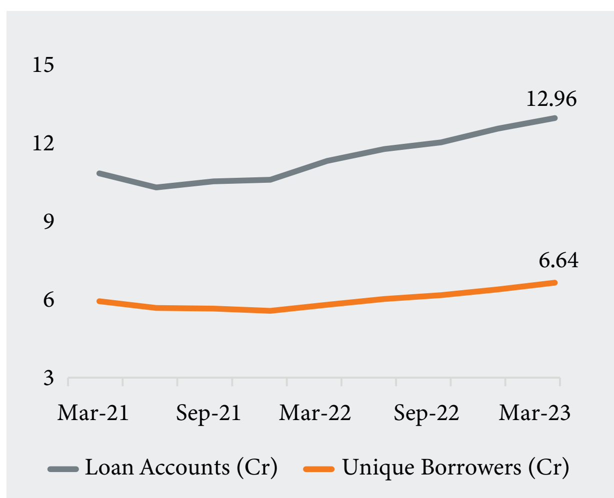
Microfinance industry – a performance update

3.1 Outreach

In the year 2022-23 microfinance industry saw growth in portfolio outstanding as well as improvement in portfolio quality as compared to last financial year – an ideal situation with augurs well for the sector. The total portfolio of the microfinance industry as on March 31, 2023 was Rs 3,48,339 Cr of all Regulated Entities (REs - NBFC-MFIs, Banks, SFBs and NBFCs) under MFI Model. In addition, there is Rs 1,98,918 Cr[38] under the SHG programme, which is not discussed in this report. There has been a consistent trend of growth in portfolio over the last 5 years barring the COVID period. Last financial year saw a growth of 22% in the outstanding portfolio of the sector, indicating responsible growth and latent demand of microfinance.

An important parameter of measuring outreach of the sector is the number of clients served. As on March 31, 2023, all REs collectively serve 6.64 Cr clients across 729 districts of the country, through 12.96 Cr active loans as shown in **Figure 3.1.** This indicates a ratio of 1.95 active accounts per UB which has remained unchanged from last FY.

Figure 3.1: No of accounts and unique borrowers (Cr)

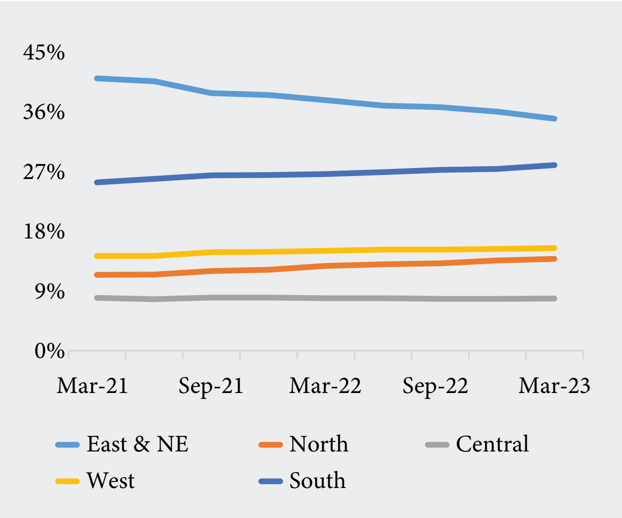


Source: Equifax

[38] Geographical Coverage under NRLM

On a regional level the distribution of portfolio continues to show a declining trend of share of East and Northeast **(Figure 3.2)** while all other regions (North, West, Central and Southern) have gained in portfolio share.

Figure 3.2: Regional distribution of portfolio



Source: Equifax

Overall share of East and Northeast came down from 37.7% as on March 31, 2022, to 34.9% as on March 31, 2023, despite the rise of Bihar as the top state in terms of portfolio outstanding as on December 31, 2022 and also Jharkhand which has shown impressive growth. This growth in these two states was negated by the de-growth of portfolio in Assam and West Bengal. Manipur due to the ongoing strife may degrow further in coming months.

It is also evident from the above figure that South which used to be the hub of microfinance before the Andhra Pradesh (AP) crisis happened, is fast catching up with East and Northeast. South is expected to grow further with the opening up of opportunities in Andhra Pradesh and Telangana. The growth pattern of the Top 10 states in terms of portfolio outstanding over the last three years is shown in **Table 3.1**.

Table 3.1: Portfolio growth in Top 10 states

State	Region	CAGR	YOY Growth		
		Apr'20 to Mar'22	Apr'20 to Mar'21	Apr'21 to Mar'22	Apr'22 to Mar'23
Bihar	East & NE	13.2%	11.0%	22.1%	37.3%
Tamil Nadu	South	7.5%	-1.3%	14.7%	26.9%
Uttar Pradesh	North	16.6%	18.0%	29.4%	41.3%
West Bengal	East & NE	0.3%	23.0%	-13.1%	-5.0%
Karnataka	South	10.5%	9.2%	16.0%	29.9%
Maharashtra	West	10.5%	10.9%	18.2%	25.7%
Madhya Pradesh	Central	9.3%	15.6%	10.5%	22.3%
Odisha	East & NE	8.7%	11.7%	13.3%	20.1%
Rajasthan	West	11.2%	20.0%	13.7%	24.5%
Kerala	South	7.3%	3.2%	13.5%	21.4%

Source: Equifax

3.2 Products – ticket size, tenure, frequency

The past year was the first financial year after change in microfinance regulation. As per the new guidelines the limitations on number of loans, tenure for specific size of loans etc. are no longer applicable. These changes have ushered in a change in the product mix. In microfinance operations the product mix has three major components viz. ticket size, tenure and repayment frequency. Following sub-section discusses the product mix shift in detail.

3.2.1 Ticket size

As shown in the **Figure 3.3**, distribution of loans according to their ticket size shows that there is a definite shift towards higher ticket size loans. Higher ticket size loans are operationally more viable and profitable for the entities since operational expenses are directly proportional to the number of clients served irrespective of the ticket size of the loans provided to client. This shift has been observed in previous years as well but seems to be more pronounced now.

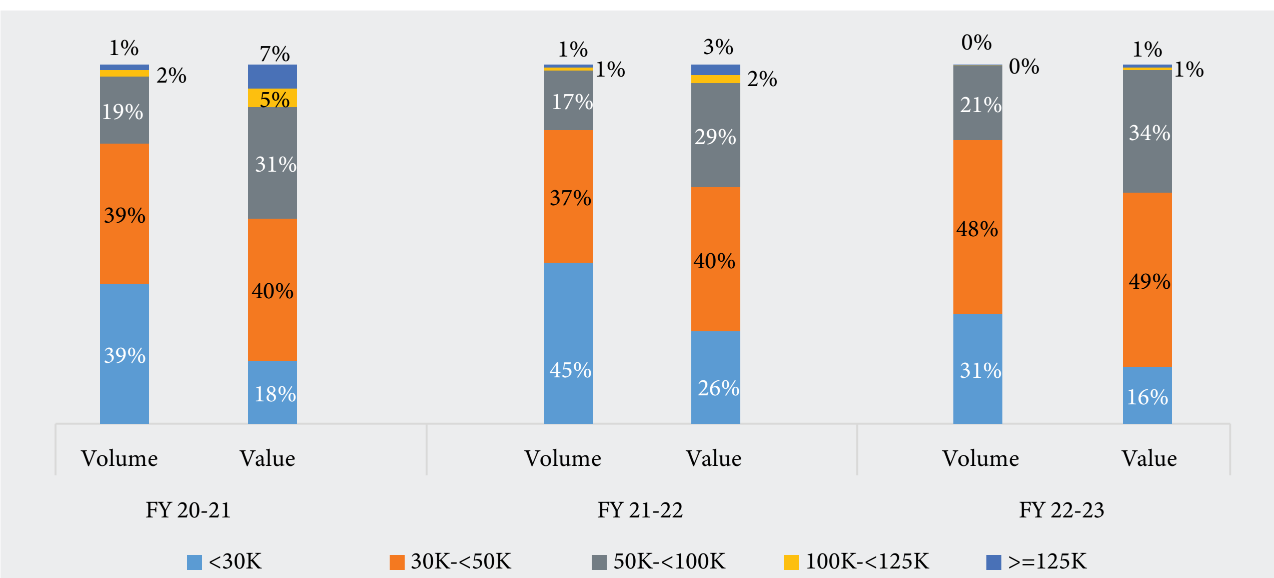
The average ticket size for microfinance loans disbursed during the FY 22-23 was Rs 41,391, a YoY increase of 6.3% in comparison to Rs 38,929 during FY 21-22. The CAGR of average ticket size over the last three years (FY 19-20 to FY 22-23) has been 6.3%, and it is the >Rs 125K bucket which has shown the highest CAGR of 6.9%. The YOY growth in >125K bucket has been the highest across all regions except South. However, the YOY growth in average ticket size has been highest for South at 13% followed by 10% for West, and in East & Northeast it has decreased by 1% as shown in **Table 3.2.**

Table 3.2: Region wise average ticket size (Rs)

Region	FY 21-22	FY 22-23	Growth
Central	36,761	39,765	8.2%
East & NE	40,879	40,615	-0.6%
North	38,271	40,991	7.1%
South	38,554	43,634	13.2%
West	36,872	40,583	10.1%
India	**38,929**	**41,391**	**6.3%**

Source: Equifax

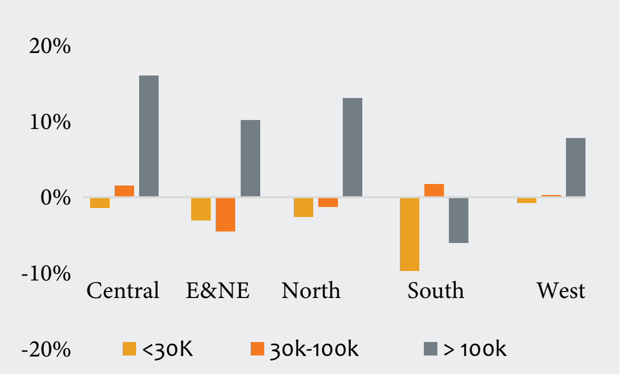
Figure 3.3: Ticket size



Source: Equifax

Proportion of loans (in volume terms) in less than Rs 30K bucket has fallen from 45% to 31% in the last FY. A deep dive into the data reveals that all regions have seen a drop in this bucket. However, in East and Northeast region the Rs 30K to Rs 50K ticket size and in Southern region the Rs 50K to 100K has seen a sharp increase. Further breakdown at state level for these regions reveals that West Bengal witnessed a jump of almost 20% in Rs 30 to 50K bracket. Similarly in Southern states, Kerala and Tamil Nadu saw an increase in Rs 50k to 100K ticket size loans. The region wise YoY growth in ticket sizes in various buckets is shown in **Figure 3.4.**

Figure 3.4: YoY growth in different ticket size buckets (%)



Source: Equifax

3.2.2 Loan tenure

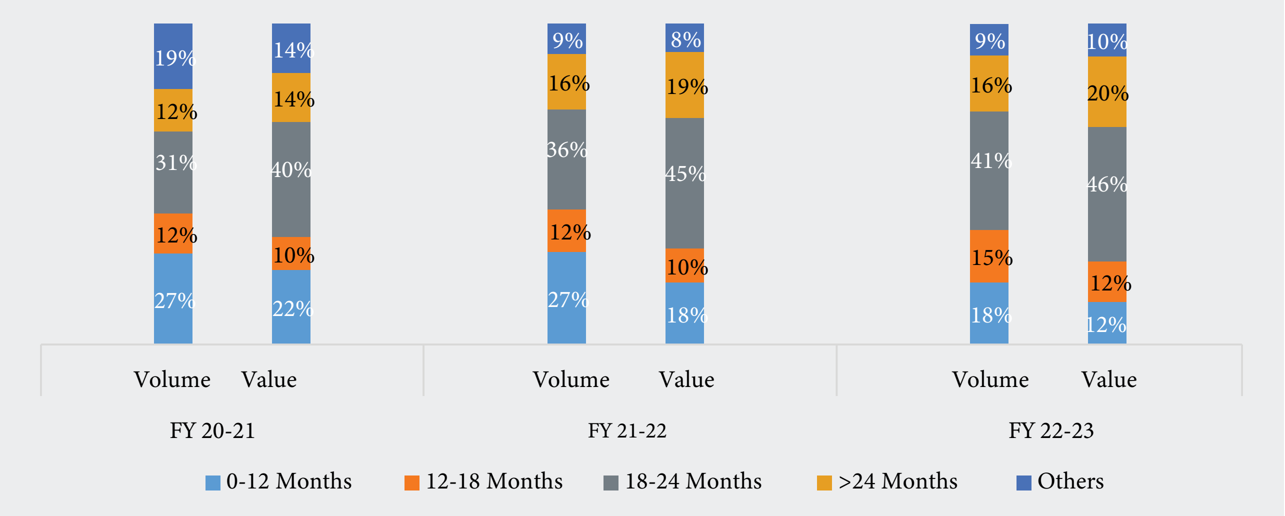
As per the new microfinance guidelines, the restriction of loan tenure according to loan ticket size is no longer applicable. Accordingly, each RE can now design their loan tenure as per the repayment capacity of their clients, calculated by Fixed Obligation to Income Ratio (FOIR). However, as per data available for FY 22-23, the industry seems to be sticking majorly (46%) to the repayment tenure of 18 and 24 months for majority of portfolio sourced but notably 30% of loans now have more than 24 months tenure

Figure 3.5 shows a gradual decline in the percentage of loan in the 0-12 months bucket. In line with the trend in FY 22-23, there is a decline in the share of loan sourced in the lowest bucket that is 0-12 months. The 18-24 months tenure seems to be the preferred option for the industry. Proportion of loans in this bucket has gone up over the last 3 years. Viewed in conjunction with increasing ticket size, the movement in loan tenure is well explained to generate operational efficiencies.

3.2.3 Repayment frequency

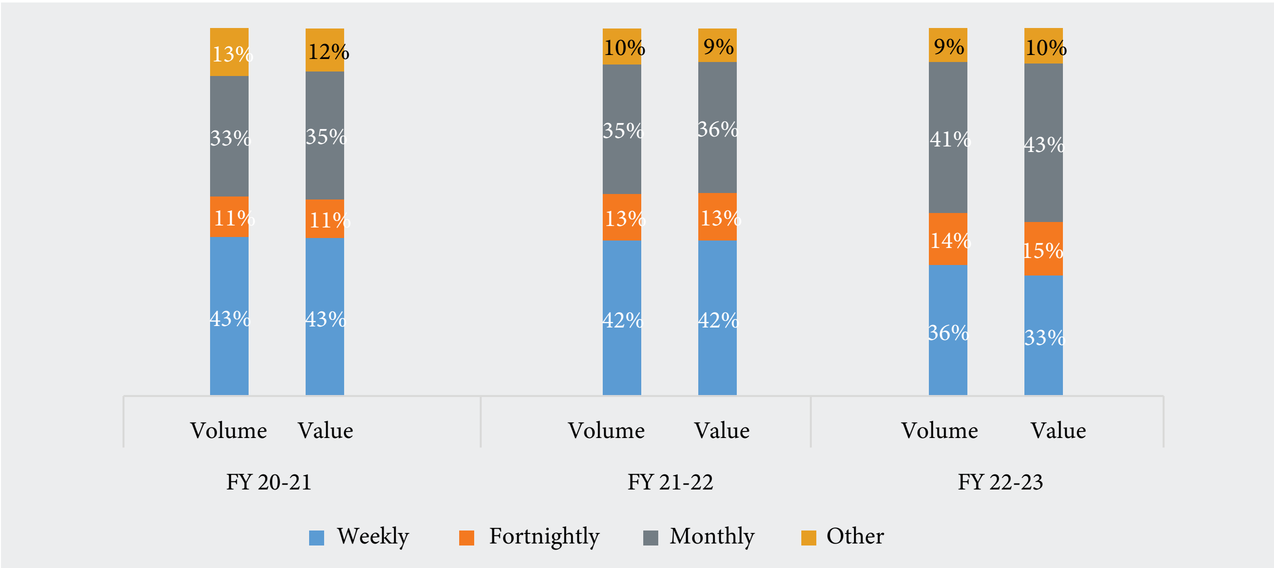
Repayment frequency is the intervals at which centre meetings are held for collection of repayment. As seen in **Figure 3.6**, there is a shift towards monthly frequency of repayment amongst the microfinance

Figure 3.5: Loan tenure



Source: Equifax

Figure 3.6: Repayment Frequency



Source: Equifax

players. This frequency seems to operationally efficient for the institution as explained in Section 3.2.1. In some geographies institutions have decided to go for weekly collections to ensure that the amount to be collected is lower from each centre. Digitalization of repayment collection can potentially aid in such geographies by reducing the cash handled by MFI staff and, hence reducing the risk. Refer to Section 5.2.4 for a brief on the HSBC supported project on "Scaling up of payment solutions for enabling microfinance borrowers to repay digitally" which is an attempt by MFIN to pilot various channels for digitalizing repayment collection in microfinance.

3.3 Financial strength (NBFC-MFIs)

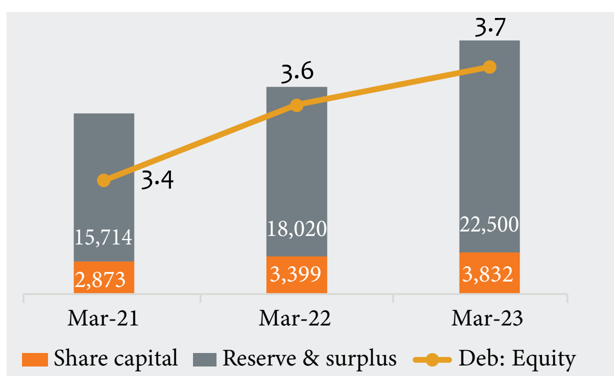
The analysis in this section is based on the data collected from MFIN Member NBFC-MFIs.

3.3.1 Borrowings and Equity

According to data of 49 NBFC-MFIs for Q4 FY 22-23, the total equity grew by 23% from Rs 21,419 Cr at the end of FY 21-22 to Rs 26,332 Cr as on March 31, 2023. The growth signifies the positive outlook and incredible potential microfinance sector continues to hold in the investor community.

As shown in **Figure 3.7,** in terms of leverage, the Debt-to-Equity ratio increased slightly from the last year figure of 3.6 to 3.7 signifying that there is scope for further leverage and that the institutions are well capitalized. At an aggregate level, share capital makes up around 15% of the total equity with remaining part being accounted by reserves and surplus. Similar to last year, total equity continues to form 25% of on balance sheet portfolio. It is noteworthy that for the Small[39] MFIs this ratio was 32%, Medium MFIs at 26% and Large MFIs at 24%. A snapshot of the equity deals during the year is shown in Box 3.1.

Figure 3.7: Equity position (Rs Cr) and leverage



Source: MFIN Micrometer

[39] Member MFI with < Rs 500 Cr AUM is categorized as Small, between Rs 501 Cr to Rs 2,000 Cr as Medium and more than Rs 2,000 Cr as Large MFIs.

Box 3.1: Equity deals during FY 2022-23

During FY 22-23, 26 Members of MFIN reported fresh equity infusion worth Rs 2,602 Cr. Of these nearly 26% was in convertible preference share and remaining 74% was in equity share. Individual investors contributed 57.5% of total new equity invested, followed by institutional investors at 23.3% and holding company at 16.7%. Promoters contributed 2.5% of share.

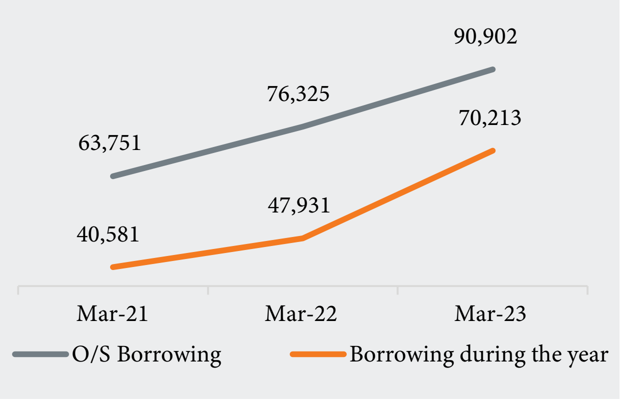
Some major deals which were closed in the year 2022-23 are as follows:

- A total of 18 different institutional investors were noted including Ambit Operations and Management Services Pvt Ltd, Augusta Investments Zero PTE Ltd, Florintree Ventures Llp, Gojo & Company, Greater Pacific Capital, M/s. Save Solutions Pvt Ltd, Manappuram Finance Ltd, FMO N.V., Nipha Steels Ltd, Nordic Microfinance Initiative, Proparco, and Teachers Insurance & Annuity Association Of America.
- Two holding companies invested in their NBFC MFIs – Arum Holding Limited Ltd and Svatantra Holding Pvt Ltd.

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

Figure 3.8 shows the breakup of borrowing received during a year and compares it with growth in borrowings outstanding as on date. It can be seen that there is a steady growth in both O/S borrowings outstanding as received during the FY across all previous financial years with a sharp uptick in borrowing received in FY 22-23 which indicates that funders also have shown confidence in the MFIs in their quest for growth.

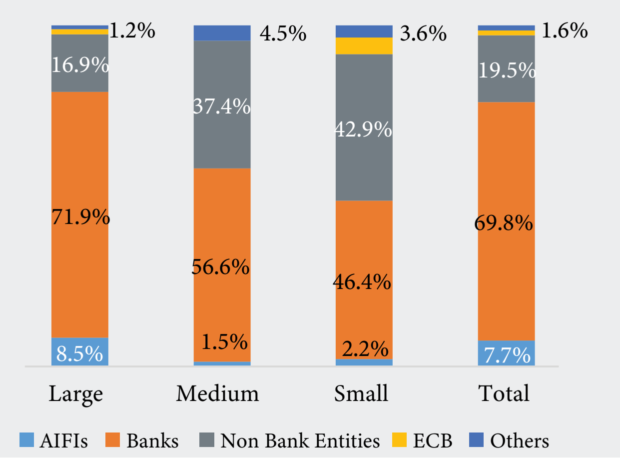
Figure 3.8: Borrowings (Rs Cr)



Source: MFIN Micrometer

Figure 3.9 shows the composition of borrowing received during FY 2022-23. The composition has remained consistent, with banks contributing almost 70% of the borrowing and non-bank Entities contributed another 19.5%. Major change observed during current FY is the decrease in borrowings received from All India Financial Institutions (AIFIs). This can be explained by the fact that the support from AIFIs to the microfinance sector had increased during the COVID period under various government schemes like CGSMFI, Special Liquidity Assistance (SLA) – with the closure of these schemes the borrowings from AIFIs has come down.

Figure 3.9: Break-up of Borrowings received during FY 2022-23



Source: MFIN Micrometer

3.3.2 Financial ratios

Table 3.3 below illustrates some of the key financial ratios based on self-reported data from 46 MFIN member MFIs. These include 22 small MFIs that contributed 3.0%, 10 medium MFIs with 8.2% contribution and 14 large MFIs with 88.8% contribution of the total GLP of all MFIs that reported data as on 31st Mar'23. The ratios suggest that the microfinance industry is now back to its pre-COVID efficiency levels.

The industry has gone through a tumultuous time in recent years. A look at the profitability ratios shows that COVID related dent on profitability has been overcome. Apart from the resumption of business at full scale after COVID, change in regulations have also played its role in bringing sustainability and profitability back on track. As per the new regulations, MFIs can now price their loans based on board approved pricing policy, while previously there was a pricing cap due to which margins were greatly squeezed. Effect of this change can be seen in improvement in Yield on portfolio which now stands at 21.23% as compared to 19.79% for FY 21-22. This increase in yield positively impacts all profitability ratios.

Table 3.3: Key financial ratios

Parameter	FY 20-21	FY 21-22	FY 22-23
Profitability			
RoA	0.6%	1.2%	2.9%
RoE	2.5%	5.2%	14.7%
OSS	104.7%	109.6%	124.9%
Income			
Yield	21.0%	19.8%	21.2%
Other income	2.4%	3.1%	1.9%
Portfolio quality			
Gross NPA	5.2%	5.6%	2.7%
Net NPA	1.9%	2.1%	0.9%
Liquidity			
LCR	394.3%	394.1%	227.8%
Cost efficiency			
PER	3.9%	4.3%	4.5%
OER	5.6%	6.3%	6.5%
FCR	9.4%	8.8%	9.3%
Cost/Borr. (Rs)	2,299	2,652	1,992
Write-off ratio	2.0%	3.1%	3.2%

Note: All parameters are depicted by weighted average ratios

Definitions	
Cost per borrower:	Operating Expense/
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

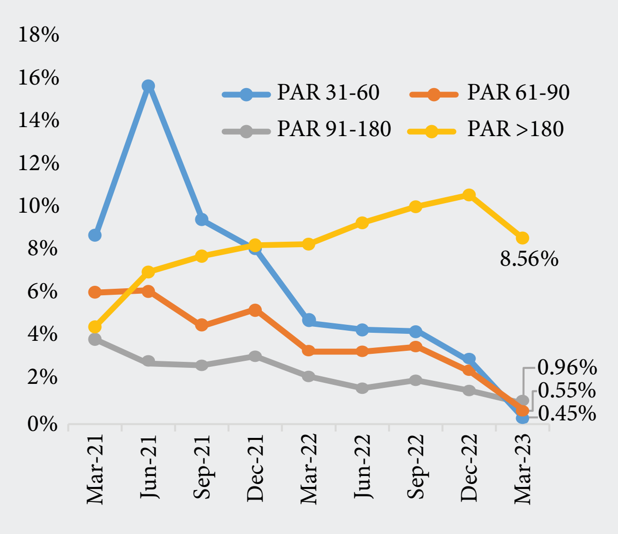
In cost efficiency ratios, Cost per Borrower has declined to Rs 1,992 from the high of Rs 2,652 while other ratios are still at a relatively high level in comparison to last year. LCR of 228% in FY 22-23 suggests that MFIs are keeping liquidity reserve well beyond the mandated requirement but when seen in conjunction with LCR of around 394% in earlier years, there has been a massive drop due to the new qualifying asset (QA) norm which requires NBFC-MFIs to have 75% of total assets as QA, which gets impacted by higher liquidity. Another evident data point is that the Member MFIs have cleaned their books by writing off NPAs. Hence overall NPA numbers (GNPA and NNPA) are better than FY 21-22.

3.4 Portfolio quality (Universe)

Portfolio quality as measured by Portfolio at Risk (PAR) for all regulated entities is shown in **Figure 3.10**. It was high in the last two FYs owing principally to the COVID crisis. However, there has been a gradual improvement in the portfolio quality since then. PAR > 30 which reached a peak of 22.44% in June 2021 has come down gradually and significantly to 10.5% in March 2023.

It is also worth mentioning that the new portfolio created in the FY 22-23 has been performing significantly better. **Table 3.4** shows an analysis of level of PAR>30 days of a portfolio originated in a particular quarter after completion of certain number of Months of Business (MOB). After Q4 21-22, the quality of the new portfolios has shown marked improvement, for the same vintage as compared to portfolios originated earlier. For example portfolio originated in Q2 21-22 had a PAR>30 of 4.2% after 9 months while that originated in Q1 22-23 had PAR>30 of much lower 2.6% after 9 months.

Figure 3.10: PAR trend



Source: Equifax

Table 3.4: PAR>30 after MOB buckets

Sourcing	MOB						
Qtr	3	6	9	12	15	18	21
Q4 22-23	0.4%						
Q3 22-23	0.5%	1.3%					
Q2 22-23	0.6%	1.3%	1.9%				
Q1 22-23	0.7%	2.0%	2.6%	3.1%			
Q4 21-22	1.2%	3.4%	4.8%	4.9%	5.7%		
Q3 21-22	1.2%	2.8%	4.4%	5.3%	5.6%	6.4%	
Q2 21-22	1.8%	4.0%	4.2%	4.9%	5.6%	6.1%	7.5%

Note: 3-MOB means, 3 months after origination of portfolio and so on. Source: Equifax

Portfolio quality analysed at state level reveals that among Top 10 states (shown in **Table 3.5**) with microfinance operations, states from East and Northeast are still facing some challenges, however for most other states with sizeable microfinance portfolio, the portfolio quality has improved. Assam continues to worsen in terms of PAR>30 – from 39.4% as on 31 March 2021 it has declined to 48.7% as on 31 March 2023. It is also to be noted that the relief of Rs 291 Cr under Assam Microfinance Incentive and Relief Scheme (AMFIRS) for Category 3 has been disbursed to 27 institutions by the Govt of Assam on September 23, 2023. The impact of this relief on new portfolio creation in Assam on performance remains to be seen.

Table 3.5: PAR>30 days of Top 10 states

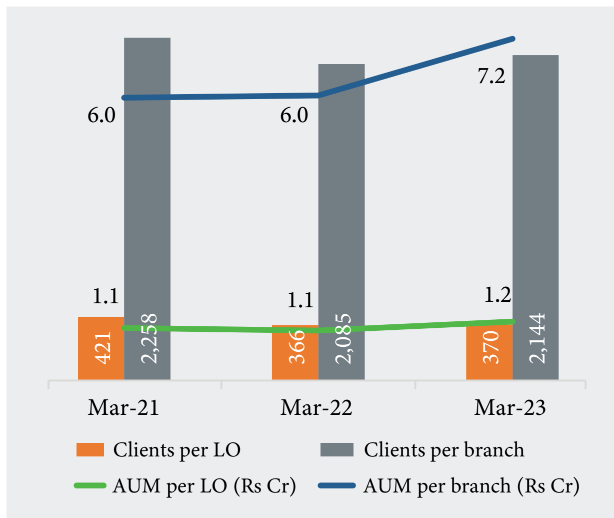
States	Mar-21	Mar-22	Mar-23
Bihar	7.6%	7.0%	4.8%
Tamil Nadu	9.5%	12.0%	7.8%
Uttar Pradesh	7.6%	6.7%	5.5%
Karnataka	7.7%	9.5%	7.3%
West Bengal	21.3%	22.9%	20.6%
Maharashtra	16.8%	14.6%	13.4%
Madhya Pradesh	11.0%	12.9%	13.0%
Odisha	12.8%	11.9%	11.0%
Rajasthan	6.7%	9.8%	10.4%
Kerala	10.6%	14.2%	10.0%

Source: Equifax

3.5 Operational efficiency (NBFC-MFIs)

Operational efficiency of MFIN member NBFC-MFIs is presented in **Figure 3.11.** The analysis presents key parameters such as portfolio and number of clients handled by a branch and a loan officer. As mentioned in the sections above, institutions are moving towards higher ticket sized leading to higher loan amounts being handled by operating staff with relatively lesser incremental change in the number of clients handled. Both clients per branch and clients per loan officer have stabilized at 2,100 and 370 clients respectively (increase of 3% and 1% respectively from last FY) but the portfolio handled by a branch went up by 20% and portfolio handled by a loan officer increased by 18%.

Figure 3.11: Staff productivity ratios



Source: Equifax

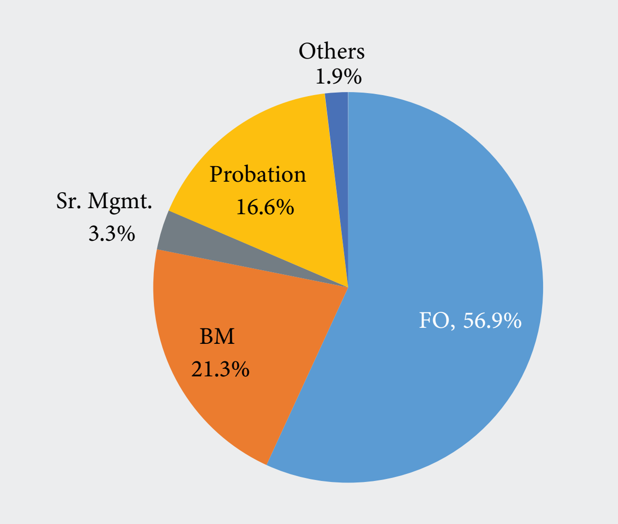
With institutions moving from weekly to monthly repayment frequency which will bring down number of centre meetings to be conducted by each loan officer, the operational efficiency numbers may go up in future. However, there is also a reverse trend seen in individual cases, where institution has decided to go back to weekly model. With the effect of pandemic wearing off, the ratio of clients per loan officer will be an important parameter to watch out for in coming years to assess whether MFIs will choose to go aggressive on this or not.

3.6 Human resource trends (NBFC-MFIs)

This section presents the trends in Human Resource for MFIN member NBFC-MFIs. Microfinance being a high touch business, loan officers and field staff are the pillars on which the industry rests. As on March 31, 2023 the aggregated employee strength of all MFIN member MFIs was 1,61,010 which is a growth of 16.2% over March 31, 2022.

Distribution of staff across various staff levels is shown in **Figure 3.12**. Field staff constitutes 78.1% of the employees. At an overall level 95.9% staff are based at branch locations. The distribution has remained steady across the last FY.

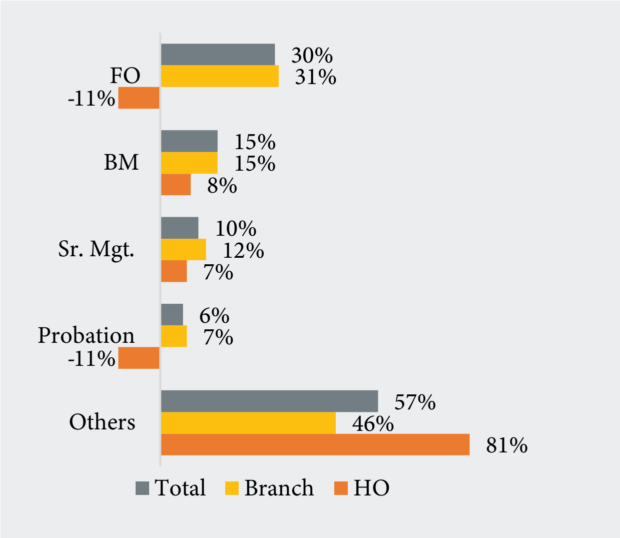
Figure 3.12: Staff distribution



Source: MFIN Micrometer

Figure 3.13 shows the category-wise growth in staff across last financial year. As can be seen, field officers (FO) have seen the highest growth of about 30% followed by branch managers at 10%. This increase in staff strength corresponds well with the increase of almost 16% in number of branches over the last financial year. Others category includes support staff/helpers which have grown by 57% but their numbers are insignificant.

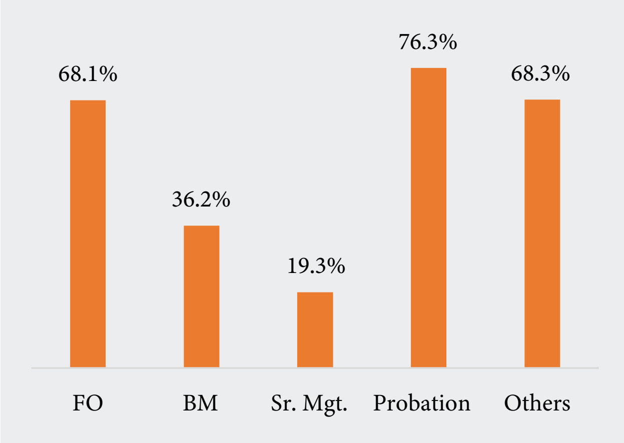
Figure 3.13: Staff growth by position (FY 22-23)



Source: MFIN Micrometer

The overall attrition rate during the period (31 March 2022 to 31 March 2023) was at 61.0%, which has increased from 48.7% in the last year. The position wise attrition rate is shown in **Figure 3.14.**

Figure 3.14: Attrition rate by position (FY 22-23)



Source: MFIN Micrometer

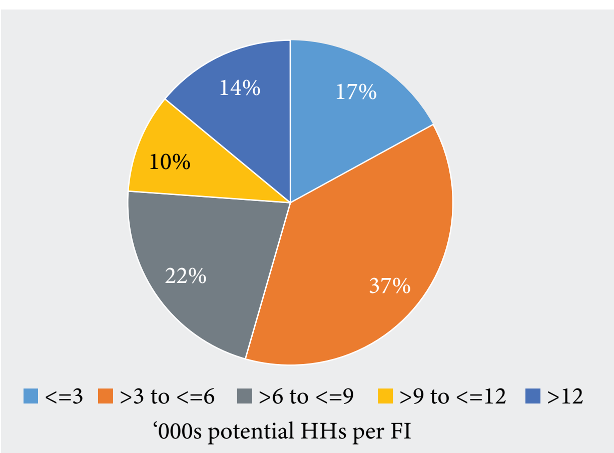
3.7 Risks

MFIN publishes monthly updates on various parameters at a district level to monitor key risks – these include Density of Financial Institutions, Depth of Outreach and Geographical concentration. An analysis is presented in the sub-sections below.

3.7.1 Density of Financial Institutions (‘000 potential HHs per FI)

Figure 3.15 shows the density of financial institutions in terms of number of potential households (in ‘000) served by a financial institution. A lower ratio indicates that households of a particular district are being served by a higher number of financial institutions as compared to another district where the ratio is high. Data shows that almost 54% districts of the country have less than 6,000 potential households per FI which is a sign that institutions prefer to operate in districts which already have presence of other microfinance institutions. This is an indication of a higher concentration of FIs in these districts and therefore more competition and risk.

Figure 3.15: Density of FIs (As on March 31, 2023)



Source: MFIN analysis, Equifax

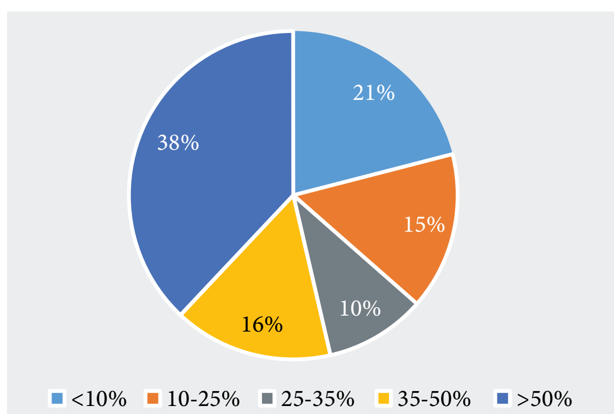
District mapping was revised by the bureaus in the last financial year leading to an increase of almost 100 districts with microfinance operations. Less than 6,000 potential households per FI has increased from 42% in the last financial year to 54% as on March 31, 2023, which indicates that even within the districts which got split or created by merging different districts, microfinance operations were concentrated in some geographies. This led to increase in the percentage of districts with higher concentration of FIs. Andhra Pradesh and Telangana which are hitherto less penetrated (only 3 out of 46 districts with <6,000 HH per FI) are also opening up for expansion of microfinance operations.

Monitoring of growth in these states will provide insights into the expansion strategy followed by the FIs. Another reason for monitoring this parameter is that earlier due to margin pressures, FIs were hesitant to enter new geographies due to initial higher operating costs involved in such geographies. With flexibility in pricing of credit as per new regulation, FIs may plan to expand operations in less served districts.

3.7.2 Depth of outreach (ratio of unique borrowers to potential HHs)

The household level penetration at a district level is another important parameter to monitor risks. As the **Figure 3.16** suggests, around 53% of districts have depth of outreach of more than 35%. This indicates that in these districts have higher level of penetration and further expansion should be done with caution. More specifically, 38% districts in >50% saturation bucket should be seen as a sign of risk.

Figure 3.17: Depth of outreach (% of districts)



Source: MFIN analysis

At the national level, the ratio is 33.17% as of March 2023, an increase by 4.4% in comparison to 28.8% depth as of March 2022. Out of 729 districts, 329 (45.1%) have depth of outreach less than the country average. As discussed in Section 3.7.1, the new districts formed by combining or splitting some districts have shown a higher depth. Overall, there is sufficient scope of expanding the depth of outreach, but it is important that FIs identify districts with lower outreach to do so.

Table 3.6 presents geographical concentration of microfinance operations. Similar to the last year, microfinance operations continue to be concentrated in Top 300 districts and Top 10 states with this concentration of portfolio increasing in comparison to end of last financial year. It is noticeable that depth of outreach in Top 10 states has increased from 43.33% to 53.38% this year indicating that there is significant increase in depth of outreach in already highly penetrated geographies. Along with that as discussed above, existing clients are being lent higher loans, which compounds the risks. At the national level, Top 10 states contributed 86.96% of the total portfolio and 86.58% of total accounts, up by 4.8% and 4.2% respectively from last FY. With new microfinance regulations and new geographies opening up, this concentration may ease in the coming years.

Summing up, while the sector has rebounded post COVID in terms of funding, portfolio quality and client addition, there are few aspects which need to be accorded priority. Foremost, is the issue of expanding beyond higher saturation areas- the new regulations provide scope for it and not competing in same geography for the same set of clients. The other issue pertains to high level of staff attrition, at the current level, it is reaching a point where major focus of institutions will go in recruitment rather than building capacities of staff. Finally, the debate of repayment tenure is still on. The sector has seen that post COVID, centre meeting attendance due to focus on digital has come down alarmingly. The sector needs to devise strategy to ensure that while digital processes go on, client connect through centre meetings is not diluted. Progress on these three key aspects will underpin future growth.

Table 3.6: District level concentration of microfinance operations (As on March 31, 2023)

No. of districts	GLP (Rs Cr)	GLP (% of Univ.)	No. of AC (Cr)	Accounts (% of Univ.)	Depth of outreach
Top 100	1,64,913	47.34%	5.99	46.20%	62.54%
Top 200	2,46,409	70.74%	9.03	69.72%	59.29%
Top 300	2,95,596	84.86%	10.90	84.15%	56.36%
Remaining 429	52,743	15.14%	2.05	15.85%	21.40%
Aspirational 112	48,770	14.00%	1.85	14.31%	50.66%
Top 10 states	3,02,928	86.96%	11.22	86.58%	53.38%
Universe	3,48,339		12.96		33.17%

Source: Equifax

04

Life after amended regulations for mF loans

With the new regulatory framework for microfinance released by the RBI in Mar 2022, a level playing field was created for all the REs operating in the microfinance domain. To adhere to the new regulations, REs were required to make material changes to their systems and processes. This chapter details the role of MFIN in assisting the industry in implementing the new regulations in a short period of time. This required ensuring uniform interpretation of the guidelines across the industry and helping evolve 'operational norms' through widespread discussions.

4.1 Compliance to regulatory changes

Some of the key changes required framing of new or revised policies by the lender. A move away from the earlier prescriptive regulations placed enhanced responsibility on the REs to frame well-designed policies along with ensuring their implementation on the field. A directive was released by the SRO reiterating the lenders on implementation of RBI guidelines applicable from 1st Oct 2022.

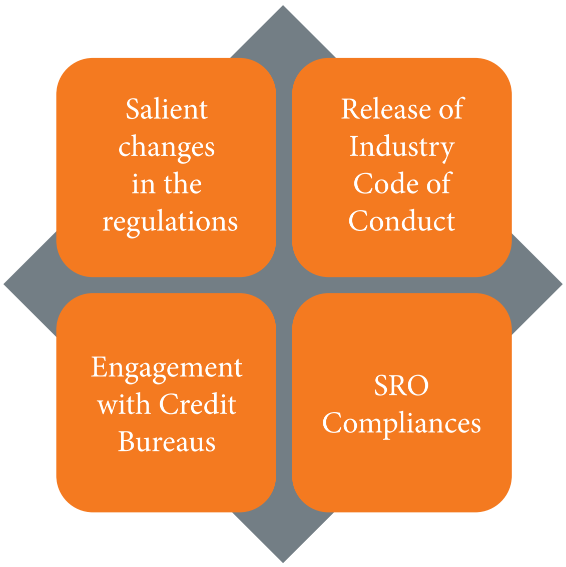
SRO facilitated quick adoption of the new regulations through a campaign to increase awareness of the changes through multiple

The new regulations from the RBI are a paradigm shift for the microfinance sector as it brings in credit guideline harmonisation across entity types and also ability to price for risk & cost for NBFC MFIs. This will usher in the next phase of growth as we seek to make "access to formal finance" a reality to as many in the BoP as possible. The role of MFIN as the SRO becomes key in working with the lenders to ensure compliance to the Code of Conduct.

Manoj Kumar Nambiar
Vice Chairperson, MFIN
Managing Director & Board Member, Arohan Financial Services Ltd

channels viz. YouTube, LinkedIn, MFIN and MFI websites. Posters capturing crisp information about the new regulations and the concept of household, microfinance client, maximum loan limit and credit assessment were released in 9 languages including Hindi and English.

To enumerate the steps required to be taken for complying with the regulatory changes, details were provided in terms of salient changes in the regulations, revision of the Industry Code of Conduct, new format of engagement with credit bureaus and SRO compliances.



Box 4.1: Keynote address by DG, RBI*

Our intent in framing these guidelines was built around the idea of customer protection. To achieve, the framework has incorporated five core principles, namely

- Addressing regulatory arbitrage with the introduction of a lender agnostic and activity-based regulation so that all the regulated entities engaged in microfinance pursue the goal of customer protection within a well-calibrated and harmonized set-up.
- Protection of microfinance borrowers from over-indebtedness caused by granting of loans beyond the repayment capacity of the borrowers which, then, can potentially get manifested into coercive recovery practices.
- Enabling the competitive forces to bring down the interest rates by way of enhanced transparency measures.
- Enhancement of customer protection measures by way of strengthening them and extending them to all regulated entities.
- Facilitating flexibility to design products/ services to meet the needs of microfinance borrower in a comprehensive manner.

This framework has been finalized after extensive internal deliberations, issuance of a consultative document and after taking into consideration the feedback received.

*By Mr Rajeshwar Rao, Deputy Governor, RBI, at the launch of MFIN's "India Microfinance Review", at Mumbai on 4th Nov'22.

4.1.1 Salient changes in the regulations

Applicability

The provisions of the new regulations are applicable to all the REs operating in the microfinance space. The structure of MFIN-SRO was revised accordingly with all the REs now required to become primary members with associate membership being limited to the non-lending entities.

Definition of microfinance loan

'Microfinance' is currently defined as a collateral free loan given to a household with income up to Rs. 3,00,000. 'Household' is defined as husband, wife, and their unmarried children. Collaterals were developed for the loan officers as well as the customers to educate them on the new regulatory changes in microfinance.

Household income

As per the new regulations, the RE is required to have a board approved policy for assessment and calculation of household income. This household level data is mandatorily required to be submitted to the credit bureaus as well.

While the regulations suggested an indicative methodology, a draft guideline was released by the SRO to facilitate REs develop their policies on the household income assessment. Along with the organization level polices, substantial effort was required to educate the loan officers on this aspect as they are responsible for proper income assessments. Several video messages, posters and audio messages were also developed to educate the loan officers and customers.

An advisory on household income assessment was released advising the lenders to submit their household income assessment framework to the SRO – MFIN observations based on a field visits is provided in **Box 4.2**.

Box 4.2: Study of HH income assessment implementation at field level

Field visits were conducted by the SRO to understand the implementation of household income assessment in the field. Following are few observations from the visits:

*Almost all the loan officers were found to be aware of the new RBI regulations and the guideline on household income of up to Rs. 3 lakhs and FOIR of 50%.

*Other parameters like availability of different assets in the house were newly introduced in the HH income assessment process. The software used by the loan officers in their tablets/ mobile phones included these aspects of assessment.

Repayment Obligation

The repayment obligation of the borrower was a new addition to the microfinance guidelines. A board approved policy by the lenders specifying the cap on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income was mandated. This shall be subject to a limit of a maximum of 50 per cent of the monthly household income considering all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household.

A directive on reporting the loan repayment obligations to income ratio of the borrower household was released. This data forms an important part of the quarterly report which MFIN submits to RBI.

Pricing of loan

The interest rate of the microfinance loans should be based on a policy with a well-documented interest rate model/approach clearly delineating the various components like – cost of funds, risk premiums and margin in terms of quantum of each component based on objective parameter. The range of spread of each component for a given category of customers along with a ceiling on the interest rate and all other charges should be mentioned.

MFIN supported the lenders by providing guidance notes to help evolve their policy for the pricing of microfinance loans. For enhanced transparency, a directive was issued asking the members to submit the rate of interest, processing fees, internal rate of return (IRR) and effective interest rate (EIR) product wise on a quarterly basis to the SRO. They were also advised to submit their pricing policy with all the components to the SRO.

This information also forms a part of the quarterly SRO report submitted to the RBI.

Qualifying assets criteria

The Qualifying assets (QA) criteria for NBFC-MFIs was revised to 75% of the total assets (from 85% of the net assets as per earlier guidelines). The QA limit for NBFCs was increased from 10% to 25% of the total assets. Due to the change in the denominator from 'total assets' to 'net assets', the criteria became more stringent and reduced the scope for portfolio diversification. It also gave rise to the possibility of breaches in case of events like equity infusion, debt raise and Direct Assignment. MFIN prepared a detailed note on the QA related issues with illustrations for RBI's consideration. The issue is discussed in more detail in Section 4.2.3.

Disclosures

Transparency in pricing through adequate disclosures continue to be an important part of the framework. The focus of new regulation on transparency and disclosures includes few detailed clauses on disclosures.

Fact sheet to the customers

Loan card/factsheet is a document which is given to the microfinance borrowers at the time of loan disbursement and remains with them throughout the loan cycle. It has all the important loan related information and helps in keeping track of the repayments made by the borrower.

The new framework captures the mandatory information which the lenders should provide in the loan card, given to the borrowers. The framework also contains an illustrative factsheet on pricing of microfinance loans to be provided with the loan card. A directive reiterating this was issued by the SRO.

Website Interest rate display

In addition to disclosure of interest rates in the loan documents, other literature (pamphlets, information booklets) issued by the lender and through display in the offices etc., disclosure of interest rates on the website is a regulatory requirement. As per the new regulations, each RE must display its maximum, minimum and average interest rates on its website. SRO keeps track of all the member's websites for this information every quarter since the release of the new guidelines and a substantive increase in the adherence to the guidelines by the lenders have been observed. To ensure adherence to the RBI guidelines regarding the display of interest rates on the website, a directive was released by the SRO detailing the display format **(Table 4.1)** of the interest rates on the website.

4.1.2 Industry Code of Conduct

The primary focus of CoC has always been to promote and advance responsible lending practices in microfinance. The new regulatory framework of microfinance necessitated the revision of the existing code to be in line with the regulations.

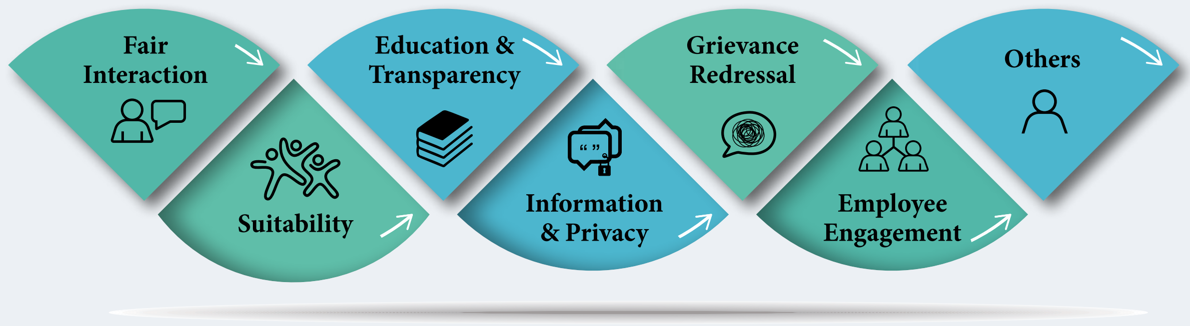
The code was released with consensus from industry associations - Sa-dhan, ASFBI and FIDC, and was endorsed by SIDBI. Sign-up on the code is a mandatory requirement for the REs to be a member of the SRO. SRO pursued with all the lenders to send their sign-up on the code as per the suggested format along with the board resolutions.

Table 4.1: Display format for interest rate disclosure on website

All Micro-finance loans	Min Interest Rate* (%)	Max Interest Rate* (%)	Av. interest rate in last quarter/ month** (%)	Processing Fees (% of the loan)

Note:- Lenders are encouraged to share additional details like range of loan amount, loan tenor, product wise details etc., without compromising on the above details.
*Interest rates are calculated on a reducing balance basis per annum
**Average interest rate: It is the 'weighted average interest rate' calculated for the loans disbursed in the last quarter/month. The loan amounts are used as the weights. The weighted average is arrived at by taking the sum of each loan's interest rate multiplied by the loan amount and then dividing this sum by the total loan amount disbursed.Please specify the quarter/month for which the average interest rate is displayed on the website.

The Code has seven elements:



The revised code encompasses all the critical areas to be focused by all the microfinance lenders in terms of fair interaction, suitability, education & transparency, information & privacy, grievance redressal, employee engagement and others. Sections on governance and enforcement, disclosures, and suggestive format of adherence report on a specified frequency are included in the report.

The industry code of conduct was drafted in line with the new regulatory framework. Exhaustive feedback was obtained from the lenders while drafting the code. Webinars and polls were held to understand the consensus with appropriate reasoning.

4.1.3 Engagement with Credit Bureaus

Launch of HH CCIR in collaboration with Equifax and CRIF

An understanding of the customer's household and not just the customer is an important part of the credit underwriting process post new regulations. To understand the credit obligation at a household level, Household Comprehensive Credit Information Report (HH CCIR) is an important product to have with the members. Prior to the new regulations, this was under discussion phase with certain challenges at the bureau level to create such a report.

However, the issues were taken up on a priority basis due to the new regulatory requirement and both the credit bureaus- Equifax and CRIF Highmark released their HH CCIRs. SRO facilitated the release of the CCIRs to the lenders through specialized webinars which gave a platform to understand the specifics of the report as well as addressed the queries/concerns.

Alignment of UCRF with the new regulatory requirements

To ensure that the reporting is done as per the mandatory requirement, MFIN carried out multiple engagements with the credit bureaus and the members.

To align the industry with the requirements of the new regulations, changes were made in the Uniform Credit Reporting Format (UCRF) for the MFI segment. Data fields for total monthly family income, number of instalments, repayment frequency and instalment amount were made mandatory field in the data reporting format for the MFI segment. The CICs were directed by the RBI vide its letter dated June 7, 2022 to reject the records submitted with non-submission of these fields from October 1, 2022 onwards.

4.1.4 SRO compliance

SRO Dashboard

The Quarterly SRO Dashboard is an important tool which supports lenders to continuously improve their processes in terms of data submission to credit bureau and employee bureau, response to complaints raised through MFIN CGRM and performance of their own CGRM.

To align the SRO Dashboard with the new regulatory requirements and improve the quality of data submission, its format was revised. The revised format was shared with all the members on 25th Apr 2023 for implementation from Q4, FY 22-23. The dashboard highlights indicators which require management's attention and may be further presented to their boards. Following were the revisions made with respect to the new regulations:

- Total monthly family income field was made mandatory for reporting to the credit bureaus to enable accurate assessment of borrower's repayment capacity, ensuring responsible lending and preventing over-indebtedness.
- Fields on number of instalments and instalment amount was made mandatory for reporting to the credit bureaus as this would offer valuable insights into borrowers' debt burden and overall financial health, enabling responsible lending decisions through FOIR analysis.

To drive daily submissions and improve the data submission quality, the logic for calculation of the daily submitted files was revised and the daily submission score in the SRO dashboard from Q1 FY 23 -24 reflected the new logic. The details of the change in logic were communicated to the members on 7th July 2023.

The non-compliances/gaps identified in the data collected on loan repayment obligation to income ratio were taken up with the SRO governance committees (SROC and EC) to take further action.

Quarterly SRO reporting to RBI

Quarterly reports are shared with the RBI by the SRO on various data points including operational and financial data of the lenders. There is a format specified by RBI in which the report is being shared. The new regulations necessitated a review

Sample SRO dashboard

of the quarterly SRO reports which are submitted to RBI. As required by the RBI, SRO submitted its suggestions on the new format of the Quarterly SRO report which are in line with the harmonized regulations. Based on the review and discussions with the SRO, RBI communicated changes in the quarterly data collection tool to understand the implementation and impact of the new framework. Based on the revised format, SRO started collecting the data on monthly obligation, household income and pricing information additionally from its members and submitting it to RBI every quarter.

The new format was used for data collection from Q1, FY 22-23 onwards. To address members' understanding of the reporting requirements, a webinar was conducted in Jan 2023. The webinar was well attended by over 70 participants and provided a platform for discussion and learning.

The Microfinance sector in India is in an evolving phase with more market opportunities, product diversification and streamlined processes along with areas of innovation with the new regulatory framework. The removal of interest rate caps will promote stronger risk-based credit underwriting. The amendment is helpful in encouraging healthy competition amongst various lenders. The new regulatory framework will also scale the industry further, enable better risk mitigation and drive financial inclusion. It is also expected to protect the customer's interests with better responsible lending practices.

4.2 Some key initiatives of MFIN as the sector body

4.2.1 MFIN CGRM

Customer Grievance Redressal Mechanism (MFIN-CGRM) is an integral component of customer protection mandates that customers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely, and efficient.

Given the educational-social-economic background of microfinance customers, they can be susceptible to being misinformed and influenced in the overall process of credit lending. Therefore, a system ensuring that the customer's voice is heard, and their interests are protected is necessary.

MFIN's CGRM provides a channel to customers of MFIN-member companies who might not be satisfied with the response to their grievances from the lenders. It also allows the customer to address and transparently resolve their complaint within a reasonable timeframe. Although as per regulatory requirements, all the REs already have a robust system for registering and resolving their customer grievances, MFIN-CGRM serves as an additional channel for the customers.

MFIN's CGRM is an independent system of linking the customers of MFIN-member companies with easy-no-cost access to the SRO, who seek support in addressing their grievances. As per a directive issued by MFIN, all the member companies are mandatorily required to mention the MFIN toll free number in the loan cards of the customers. The details of the structure of CGRM at MFIN is listed **Box 4.3**.

Box 4.3: Structure of CGRM

Receiving/capturing Complaints (MFIN Toll free Number: 1800 102 1080)

Incoming calls on MFIN Toll free Number: Monday to Saturday from 9:30 am till 5:30 pm.

Calls received from all states. Executives can speak 12 languages - English, Hindi, Odia, Bengali, Marathi, Punjabi, Assamese, Gujarati, Malayalam, Kannada, Telugu, and Tamil.

All the calls landing up in the toll-free no helpline get recorded.

Additionally, the customers can also reach out to MFIN through an e-mail id - customercomplaint@mfinindia.org and register their complaints. The customers are reached by via phone in case all the adequate details are not received by e-mail.

Currently, the calls are categorized into 10 categories and more than 30 sub-categories.

The details of calls and complaints received in MFIN CGRM over the last 8 years is shown in **Figure 4.1.**

Processing of complaints is done through a CRM software. TAT is defined for each process with escalations and reminders and it serves as a second port of escalation, except for severe complaints. **Figures 4.2 & 4.3** show category wise and state wise distribution of complaints received in MFIN CGRM in FY 22-23.

Figure 4.2: Complaint Categories (FY 22-23)

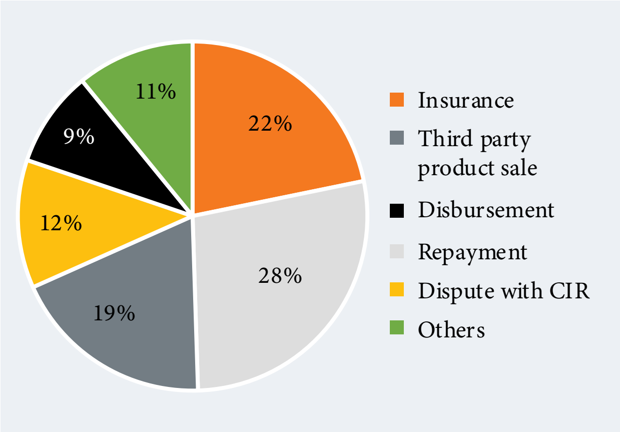


Figure 4.1: MFIN-CGRM YoY Call details

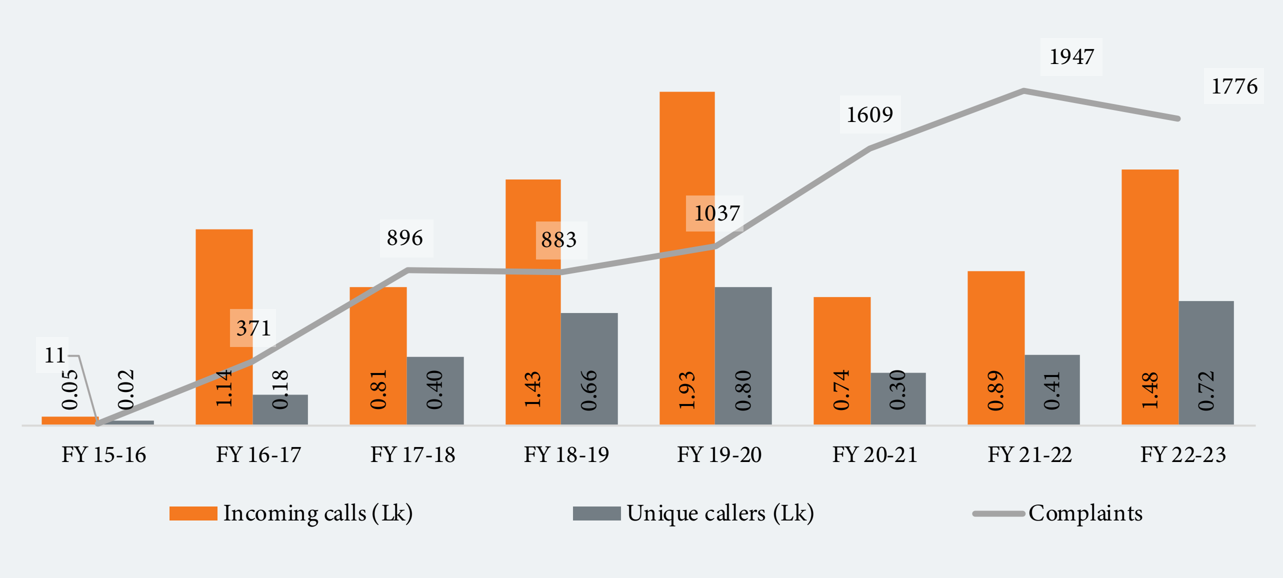
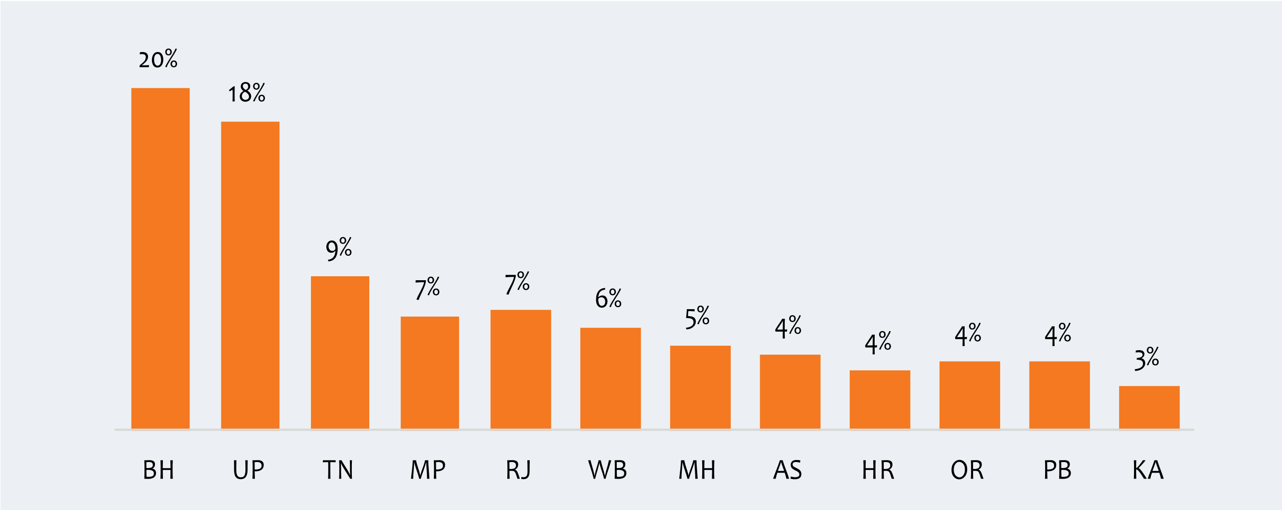
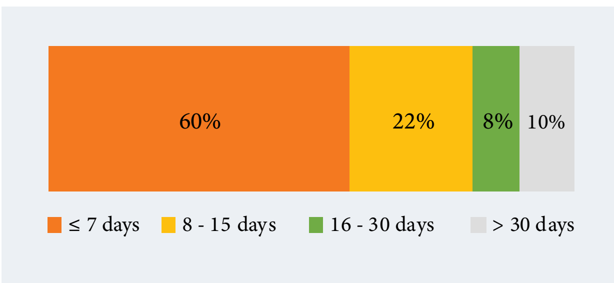


Figure 4.3: State wise calls (FY 22-23)



Resolution and closure of complaints: Complaints closed only after obtaining feedback from the customer. There is provision to relook into the issue if the customer is not satisfied with the resolution provided. In few cases where due to lack of evidence, it is difficult to establish the exact issue and the complaint cannot be closed satisfactorily, the escalation of the complaint to the RBI Ombudsman is facilitated and the complaint is closed as 'disputed' in the MFIN CGRM system. **Figure 4.4** shows the status of complaints resolutions in FY 22-23.

Figure 4.4: Turn Around Time of complaint resolution in FY 22-23



CGRM update from member companies: MFIN member NBFC-MFIs shares the quarterly update on calls/complaints received on their own CGRM with the SRO. The member NBFC-MFIs[40] reported receiving a total of 5,30,566 calls and 31,985 complaints in FY 22-23.

Quarterly reporting to RBI: As per the mandate by the RBI, SRO shares a quarterly report to the RBI and details of complaints – member wise as received.

CGRM Study: To gain insights on customer's experiences of navigating the MFIN-CGRM to further enhance its effectiveness, MFIN partnered with Dvara Research Foundation to undertake a study. Dvara deployed a methodology comprising a mix of a primary survey of over 300 users, stakeholder interviews and desk research to understand the user- centricity of MFIN-CGRM and mapped the under nine attributes – Accessibility, Seamlessness, Proactive communication, Cost-effectiveness & timeliness, Personal data protection, Objectivity, Independence, Accountability and Capacity building.

The study finds that the MFIN-CGRM demonstrates an incisive understanding of the lived context of its user base. The study recognised the provision of simple, costless, multilingual, toll-free phone-based channels to access the CGRM. The registration process was considered uncomplicated as it did not ask for excessive data. Complaints were accepted regardless of the date of registration. MFIN's CGRM was found to expend a sizeable effort in familiarising users with the procedure while maintaining provisions to fast-track critical complaints.

Employee complaints: As toll-free numbers were widely disseminated, the employees of the lenders too started reaching out for resolution of some grievances they had. With the increase of such calls, the SRO started taking up the employee complaints with member institutions to obtain adequate responses for resolution/closure. Although the number of such complaints is less, this has added up to the scope of CGRM and helps to understand the employee level challenges/issues within the industry.

4.2.2 LeadEdge

'LeadEdge' is an exclusive management development programme designed by MFIN in collaboration with XIM University (erstwhile Xavier Institute of Management), Bhubaneswar. It is a 3-day residential programme conducted at the XIM campus and is targeted at mid to senior level microfinance professionals who are in leadership and managerial roles in the organization. This programme has been designed to impart essential skills to 'manager of managers' using simulation games, situational analysis, role plays etc.

[40] Panel of NBFC-MFIs is largely same but not exactly same for all the quarters

MFIN SRO worked closely with the MFIN HR Working Group and XIM University to develop and customize the programme. The topics covered under the programme includes negotiation skills, time management, leadership, managing teams effectively, review & feedback, stress management, dealing with public officials, crisis management, handling ethical issues at work, managing team etc. The participants are also given an understanding of the evolving microfinance industry.

The program received an enthusiastic response from the industry. Three batches with 30-32 participants each have participated in the program so far. Participants from 24 organisations have attended the program.

ADEPT 15, a psychometric analysis test tool developed by AON was introduced for assessing the work-related behaviours of the participants in the 3rd batch. The initiative was much appreciated by the participants.

4.2.3 Masterclass for Directors on Board

The 2-day programme of the customised masterclass for directors was conducted on 21st and 22nd Feb 2023 at Gurgaon. Designed in association with the Institute of Directors (IOD) for the Board Directors of Microfinance lenders, the program got a good response. The modules covered important topics like companies Act and other corporate laws; the duties, responsibilities, and liabilities of directors; aspects of improving corporate credibility and governance standards; enhancing effectiveness and accountability; Internal audit; and microfinance.

4.2.4 Online datahub

MFIN has been collecting data from various sources for its publication, reporting to regulator and advocacy efforts since FY 2012-13. The data points collected includes self-reported operational and financial data by MFIN member MFIs and as well as bureau sourced aggregated data. Apart from these sources, MFIN also receives compliance related data from bureaus, field level data from an in-house application named RADAR, from studies, evaluations, audits, CGRM helpline database and incidental data collected for specific purposes.

All these data are currently used for the specific purposes for which they were collected. However, since all these data are housed in separate folders with their separate data owners, at times it becomes difficult to get a comprehensive view of industry or a particular institution. In addition, the data collected in all these years has become large and there is a need to manage this data in a systematic database so as to provide consistent picture to users.

The vision is to:

- Provide quick, secure and customised access of data for different user types (MFIN Secretariat, Members/Associates, others)
- Provide a unified view of MFIN Members of their own data and vis-à-vis industry and peer benchmarks
- Fulfil the ongoing MFIN's data needs for reporting, advocacy, surveillance, analytics etc.

The online datahub is near completion and will be opened up for Members in FY 2023-24.

4.3 Policy issues – work in progress

The new regulations have addressed the major policy challenge faced by the sector but there are still some policy issues that are creating bottlenecks in terms of compliance. In addition to these issues, there are some efforts required to nurture the new players as well as have tools to protect the REs and their borrowers from shocks. The sub-sections below discuss these issues and solutions.

4.3.1 Credit bureau

For micro-credit customers who lack physical collateral and regular income/cash flows to demonstrate repayment capability, developing 'reputation collateral' in a credit reporting system is a very important asset. For lenders and the industry, credit information improves transparency in financial transactions and accuracy in credit decisioning. In the context of above, it is important that customer data is accurately and timely updated with the Credit Information Companies (CICs) and lenders use Credit Information Report (CIR), which is accurate and updated for lending decision.

The Credit Information Companies (Regulation) Act (CICRA) was enacted in the year 2005 with a view to regulate CICs and to facilitate the efficient distribution of credit. With a view to streamline the process of data submission by the financial institutions to the CICs, standardized data formats for furnishing of credit information to Commercial, Consumer and MFI credit bureaus were adopted. The formats are known as Uniform Credit Reporting Formats (UCRF). The financial institutions are required to submit the credit information to the CICs in timely manner. The credit institutions (CIs) submit the information on daily, weekly or monthly frequency using the standard reporting formats.

MFIN actively engages with all the stakeholders to build a robust credit bureau ecosystem, which includes lending institutions, credit Information companies, and the regulator. MFIN represents the voice of the microfinance industry during the meetings of the technical working groups of the RBI. These discussions serve as forums for driving necessary policy changes. The developments related to the credit bureau in the last year are described below (in addition to the HH CCIR Alignment of UCRF with the new regulatory requirements discussed in Section 4.1.3).

Review of the technical formats issued by CICs for obtaining credit information from CIs

The usage of different catalogues and data submission formats by different lenders often raises disputes, therefore there is a need to have a standardized catalogue for consumer, commercial and MFI. There is a need for standardization of the data correction format so that if a customer makes a complaint, it can be shared with all CICs in the same format for correction.

The data validation rules applied by the CICs for accepting the data are not uniform across the CICs. This leads to a difference in the data acceptance by different CICs. There is a need to implement a common set of rules for validating all data fields in the UCRF to ensure the overall quality of the data. To address the above issues, group discussed on standardization of technical formats used for data submission be CIs to CICs and common validations rules across CICs. A comprehensive review of the technical formats (consumer, commercial and MFI) issued by CICs for obtaining credit information from CIs, was undertaken by the technical working group. The current technical formats, populated with the field validation of whether it is mandatory, optional, or conditionally required, were thoroughly analysed and submitted with the remarks to the group.

The group also critically reviewed the presence of microfinance loan fields like Microfinance – Business Loan, Microfinance – Personal Loan, and Microfinance – Housing Loan in the consumer bureau.

Review of issues pertaining to the credit information reporting system

To facilitate the plugging of gaps in the credit information reporting system and improve the data quality of the CICs, a TWG Subgroup was advised to deliberate on issues pertaining to the credit information reporting system.

The CIs are currently using the Secure File Transfer Protocol (SFTP) mechanism for data submission to CICs. It was observed that data upload through SFTP is a time-consuming process and delays the overall data submission. The group discussed automation of the data submission process and CICs are working on the common data portal framework in a long-term approach.

It was felt that in cases where the data correction sought by the customer has been declined by a CI, they need to give reasons for the denial of the data correction to the CIC to onward submission to the customer. In many cases, it was observed that CIs decline the data correction in the CIR citing "no change in reported information". It was felt that if the customers are made aware of the reasons why the CI has not modified the data, they can take suitable measures to resolve the pending grievances. A list was collated, with the scenarios and exhaustive reasons received from all the CICs and CIs. The final 'list of reasons' will be shared with all the CI. Any CI rejecting the consumer grievance will be required to give the reason from this exhaustive list, which will be further shared by CIC to consumers.

The details of the assignment/ transfer of loan from one lender to another lender or any entity, are not captured in detail in the CIR of the borrower. This leads to grievances from the borrower including raising the dispute about the ownership of the tradeline in CIR. To address the issue, CICs shared a process document and reiterated the process to ensure everyone is calibrated.

Currently, there is no monitoring mechanism for the CIs on the data submitted by them to CICs. The introduction of a dashboard for monitoring the quality of data submission was a part of discussions.

Preparation of a draft on the Data Quality Index for microfinance

The RBI directed that the TWG shall deliberate and prepare a draft DQI for the MFI segment and submit the same to RBI for consideration. A common Data Quality Index (DQI) will assist CIs in determining the gaps in their data submitted to CICs and move towards improving their performance over a period. CIs would also be able to rank their own performance against that of their peers and identify their relative position.

As a follow-up to the TWG discussions, the RBI has come out with a notification on DQI on September 20, 2023. As per the notification, all the CICs would publish a data quality index in form of a numeric score to all the member CIs.

A common national identifier for KYC

TWG Subgroup was formed for deliberation on mandatory submission of CKYCR number by CIs to the CICs as a common national identifier in a separate field in the technical formats. It was highlighted that CKYC penetration is still very low although it started in 2017. On point of checking the rate of CKYC generated for MFI customers with CB, MFIN highlighted that JLG/SHG loans are exempted from the process of CKYC. The group discussed taking PAN as an alternative and working on refining the process with PAN. Feasibility of PAN was discussed, PAN penetration being low in rural areas other alternatives will be required, for KCC or crop loans PAN is compulsory but for other products like personal loan it is mandatory in rural branches also. MFIN told the group that VID penetration is highest in MFIs with Ration card dominating in few areas like Tamil Nadu. MFIN also suggested that any identifier like PAN/ VID must be authenticated with UID to establish uniqueness. The possibility of using Udyam number as a unique identifier in the future was also discussed.

TWG Sub-group on digital lending

RBI asked the group to discuss on whether the mobile number/ email ID fields in the reporting format can be made mandatory immediately or a phased approach may be adopted. The participants of the group highlighted that many consumers do not have mobile numbers and therefore mobile numbers cannot be made mandatory and timelines cannot be given, CICs should not reject records submitted without mobile numbers, mobile numbers cannot be collected for legacy accounts.

Considering that the database of CICs are currently adequately/reasonably populated, TWG was asked to deliberate if intimation to borrowers can start immediately. The group highlighted the real-world issues like legacy submission, same mobile number shared amongst household members, frequent change of mobile numbers by borrowers, low contactability, DND numbers.

Other CIC issues

<u>Submission of data to the CICs in Non-standard file formats</u>: CIs have been submitting data files to CICs in various types of formats, which include single and multiple files in CSV, Excel, and various other file formats. The submission of data in non-standard formats by these lenders often results in errors during the file conversion process. This process has proven to be iterative and often requires manual intervention. In order to establish a seamless, error-free data flow with no-touch data integrity and to advance toward a streamlined straight-through process, it is required that lenders adhere to a standardized file format when submitting their data.

<u>Timely Submission of the data files to the CICs:</u> Timely data submission of monthly, weekly, and daily files by the CIs to all the CICs is still lacking. Lapses and delays in the submission of data to the CICs are informed to MFIN members on a regular basis. This communication serves as a reminder of the importance of timely data submissions and highlights the entities submitting data with a delay. MFIN will continue its efforts to institutionalize the submissions to the CICs.

4.3.2 Aadhaar as the unique identifier

While, the TWG had discussed about the possibility of CKYCR and Udyam No. as the national identifier, in MFIN's opinion Aadhaar number is the best suited as a unique identifier for microfinance borrowers.

MFIs take KYC IDs of their prospective client as part of the sourcing of loan and report the demographic details and the ID taken to the CICs for generation of a CIR of the client. These KYC IDs and demographic details are used by CICs to identify each client uniquely (deduping). For most part of last decade, MFIs had been using 2 KYC IDs (Voter ID and Aadhaar). Use of these IDs suited the microfinance business since most microfinance clients do not have PAN number. For this clientele Aadhaar was a perfect fit since it was available ubiquitously and provided complete certainty of uniqueness. However, post Honourable Supreme Court's judgement on Aadhaar, MFIs were unable to take Aadhaar as a KYC and had to resort to taking only voter ID as the KYC document.

Issues in deduping

An accurate CIR necessarily requires an individual client to be identified uniquely which in turn needs unique identifier to be populated in all lending relationships. As mentioned above, due to unavailability of Aadhaar, Voter ID is the only KYC document which is available with microfinance clients but this ID is not unique. Cases have been reported where a client was in possession of multiple voter IDs. At times due to slight change in name (pre marriage name and post marriage name for example) or other demographic detail and different Voter IDs, identification of all transaction records of a unique client doesn't happen. As such, lack of a true unique identifier can result in multiple lending and over indebtedness of a microfinance client.

Another noteworthy issue is change in microfinance guidelines from March 2022 wherein microfinance loan definition was linked to household income levels and repayment capacity of clients instead of number of lending relationships. This means that MFIs are required by regulations to ensure that for each client's HH income level and repayment obligations are captured and are within prescribed limits. This can only be ensured by access to a CIR which has accurate details.

Proposed solutions

- CICs be allowed to receive, store and use Aadhaar – Aadhaar is the best possible option for KYC IDs which can enable CICs to perform dedupe with negligible chances of overlaps or missing out of records.
- NBFC-MFIs be allowed to use Aadhaar for client verification and CIC reporting purposes as was the case before the Judgement of Honorable Supreme Court. To ensure security of Aadhaar data, mechanisms may be explored where client provides her Aadhaar details and consent directly to the CIC using biometric verification/ OTP based verification to processing query and generation of CIR. In this method, the Aadhaar details are directly passed on to the CIC without locally storing any data in the loan origination system of the MFIs. Thus, the issues related to availability of adequate IT security infrastructure at MFI end will not arise. MFIs can continue to take voter ID for their KYC compliance purposes.

4.3.3 Digital lending

There are several regulatory gaps and concerns that can be seen in the domain of digital lending – though as per guidelines microfinance is also digital lending. From the data available in the public domain the following can be noted in respect of digital/fintech lenders:

a. Share of non-collateralized loans (reported as personal loans to the credit bureaus)[41]: 72% of GLP and 83% of number of loans.

b. Share of lending to individuals with annual income <INR 3 lakhs[42]: 61% of value

[41] 2023, Equifax. "Fintech Lending Trends FY 2022-2023"

[42] 2022, March. "Fintech Lending Trends from FACE members, Issue 1."

c. Maximum interest rate charged[42]: From 30% to 60%

d. Maximum processing fee charged[42]: From 2% to 10%

e. Low Average Ticket Size[41]: INR 12,989

f. Low tenure of the loans[41]: 88% of GLP constitutes of loans with <6 months tenure.

Based on the above data, the following can be surmised:

a. Most of the loans given by Fintech lender qualify as microfinance loans as per the current regulations.

b. These loans remain out of the current microfinance regulations.

c. These loans are reported to the consumer bureau as personal loans (or as STPL) and not as microfinance loans in the microfinance bureau.

d. These loans are given at high interest rates/ processing fees.

Based on the above, the following solutions were proposed to the RBI as the field issues related to it and gets conflated with strongly regulated NBFC-MFIs.

a. That these Fintech lenders/banks who have tie up with them should be required to comply with the MF regulations. Not doing so, leads to weak underwriting and customer protection.

b. The data should be reported to Mf bureau and not Retail bureau

c. RBI should take a look at their interest rates and recovery practices

d. Also suggest that such institutions should be asked to be part of the well-established Microfinance self-regulatory organization to contribute to and learn from the ecosystem which has evolved over the last few decades.

e. They are basically microfinance lenders as per microfinance regulation albeit with focus on consumer loans over income generating loans. A closer examination will show this similarity and avoid regulatory arbitrage.

4.3.4 Qualifying assets

The concept of QA (or microfinance loans) was introduced by the Malegam Committee as a rationale for classifying certain types of NBFC as an NBFC-MFI. The hypothesis was based on a study of 9 large and 2 small MFIs and concluded that a NBFC that has microfinance loan (QA) of not less than 90% of their total assets excluding cash and bank balances and money market instruments should be classified as NBFC-MFI while other NBFCs can have QA not exceeding more than 10% of total assets.

However, based on feedback for need to diversify, the QA requirement was prescribed as "Not less than 85% of its net assets" in the RBI master directions of 2011[43] to operationalize the Malegam Committee recommendations. At that time the aggregate size of the NBFC-MFIs (and effectively the microfinance industry as they were the only providers) was Rs 17,264 Cr (MFIN Micrometer Q4 2011-12) and the QA norms were pertinent in helping them focussing on providing financial services to the microfinance target segment as defined by QA.

The growth of the sector led to few issues with the QA norms:

- With years of obtaining microfinance and the improved livelihood opportunities, the credit requirement for many borrowers diversified and increased beyond the microfinance limits. It became important for NBFC-MFIs to offer products that cater to their various lifecycle requirement. MFIN had conducted an analysis which showed dependence of such borrowers on NBFC-MFIs despite that they had the capability to graduate to the next level of financial institutions for their credit needs.
- One of the reasons for such a behaviour was that mature MFI clients have higher level of

[43] 2011, 02 December. RBI. "Circular DNBS.CC.PD.No. 250/03.10.01/2011-12"

comfort with MFIs and have an already proven relationship with them. If MFIs can diversify and introduce more products to their clients, they will have easier access to credit and other financial services.

- However, the requirement of having 85% qualifying assets as a proportion of net assets restricted the ability of MFIs to innovate, as effectively the MFIs did not get the full advantage of the 15% spread to create non-qualifying portfolio to offer other credit products required by the clients. This is because many assets such as deposits, fixed assets, advanc e taxes, intangible assets, interest accrued but not due, sundry debtors etc. get treated as non-qualifying assets.

MFIN, through its representations to RBI had advocated that the QA criterion be modified and linked to 'on balance sheet portfolio' and not "net assets" to allow scope of portfolio diversification and enable MFIs to cater to various credit needs of the microfinance borrowers. After consultations with the industry, RBI released the new[44] master directions microfinance loans with revised definition of QA as below:

- 75% of total assets for NBFC-MFIs – changed from 85% of net assets in the earlier guideline.
- 25% of total assets for NBFCs – increased from 10% in earlier guideline.

It is understood that while the thought process of reducing the QA limit & linking it to total assets was to allow greater scope to NBFC-MFIs to diversify and making it congruent with the norm for NBFCs, the new QA norm in reality has become stiffer. The issue is that in the earlier QA norm of 85% of net assets, the NBFC-MFIs had a scope of diversifying their loans to the extent of 15% of net assets (equivalent to around 10-12% of total assets). By changing the norm from Net Assets to Total Assets, and despite reduction of absolute % of QA from 85% to 75%, the minimum scope for NBFC-MFIs to diversify their loans has been lowered to ~5% of total assets in comparison to 10-12% as per earlier norm. This is leading to NBFC-MFIs being not able to lend to their old clients who have moved out of traditional microfinance and drying up of mid-size MUDRA loans, leaving such clients without access to formal finance. This is happening at a time, when MSME financing is a national priority.

Additionally, as NBFC-MFIs cut staff and MSME portfolio to comply with the new norm, it being a static concept, any new infusion of debt or equity leads to QA breach. This happens as the money received sits as cash and can only be disbursed gradually as loans. It did not happen earlier as cash and liquid assets were excluded in seeing compliance. In such cases, each institution has to approach the RBI for condonation, which increases work for the RBI and uncertainty for the Institution.

The solutions seem to be in reducing the QA limit further from 75% of total assets or link it to the on-balance sheet portfolio of NBFC-MFIs – any of these changes will meet the larger policy objective of ensuring that NBFC-MFIs remain focussed on microfinance

4.3.5 Credit guarantee

Credit Guarantees (CG) are the "Access to Finance" mechanisms provided as a risk sharing instrument for lenders and are aimed to improve flow of credit in borrower segments which are normally perceived to be risky by lenders. Credit guarantee mechanism involves three main participants - borrower, guarantor and lender. Guarantee is a traditional method of assuring the lender about the safety of his money lent to a given borrower. A guarantor (here, the credit guarantee organisation) assures to make good a proportion of the borrower's debt to the lender in case of default [NABARD, 2022[45]]. At a global level, public credit guarantee schemes are a common form of government intervention to unlock finance for small and medium enterprises (SMEs). More than half of all countries in the world have a CGS for SMEs and the number is growing [World Bank[46]].

[44] 2022, RBI. "Master Direction, Regulatory Framework for Microfinance Loans"
[45] 2022, NABARD. "Rural Pulse – Nabsanrakshan Foundation Day Special Issue"
[46] 2016, The World Bank. "Principles for public credit guarantee schemes for SMEs".

In India, there are two CG organisations to provide guarantee in respect of the credit facilities (term loan and/ or working capital assistance), extended by the lending institutions without any collateral security and/ or third party guarantees to the new or existing Micro & Small Enterprises (MSEs) – Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and National Credit Guarantee Trustee Company Ltd (NCGTC). CGTMSE was jointly set up by Ministry of Micro, Small & Medium Enterprises (MoMSME), Government of India (GoI) and Small Industries Development Bank of India (SIDBI) in July 2000 to catalyse flow of institutional credit to MSEs. NCGTC is a private limited company, established by the Department of Financial Services (DFS), Ministry of Finance (MoF), in March 2014 as a wholly owned company of the GoI, to act as a common trustee company for multiple credit guarantee funds. NABSanrakshan Trustee Private Limited, a wholly owned subsidiary of NABARD established in November 2020 as a Credit Guarantee Company is dedicated to serving agriculture and rural sector.

The CG schemes implemented by CGTMSE and NCGTC that are of some relevance to the microfinance sector are captured in the **Table 4.2**.

Table 4.2: CG schemes for MSMEs

	Schemes
CGTMSE	**CGS I for Banks**: It is for the credit facilities (fund based &/or non-fund based) with primary security by the way of term loans and/or working capital (WC) facility extended by scheduled commercial banks to MSEs. The guarantee ceiling is Rs 500 Lk, with slab based annual fee ranging from 0.37% (Rs 0-10 Lk slab) to 1.35% (above Rs 2-5 Cr slab) and guarantee cover ranging from 75% to 85% (for marginalized groups). **CGS II for NBFCs:** For unsecured credit facilities (terms loans/WC) extended by NBFCs registered by RBI to MSEs and meeting minimum threshold limits for CRAR, profitability and net owned funds based on vintage (up to & more than 3 years), with guarantee ceiling of Rs 200 Lk. The annual fee is based on the risk rating of the NBFC by the external rating agencies empanelled by CGTMSE & the cover is 75% of the guaranteed amount.
NCGTC	**Credit Guarantee Fund for Micro Units (CGFMU):** Provides guarantees for loans up to the specified limit (currently Rs 10 lakh) sanctioned by Banks/ NBFCs/ MFIs/ other financial intermediaries engaged in providing credit facilities to eligible micro units in manufacturing/services sector, collateral free loans between Rs 10 to 20 Lk to SHGs/JLGs and up to Rs 10,000 overdraft facility sanctioned under PMJDY. Fee ranges from 0.25% to 1% of sanctioned amount. **Emergency Credit Line Guarantee Scheme (ECLGS):** It provides 100% guarantee coverage to Member Lending Institutions (MLIs) on Guaranteed Emergency Credit Line (GECL) of up to Rs 5 lakh crore to eligible MSMEs. The scheme was a specific response to the unprecedented situation arising out of COVID-19 to provide much needed relief to the MSMEs by incentivizing MLIs to provide additional credit to meet their operational liabilities and restart their businesses. **Credit Guarantee Scheme for MFIs (CGSMFI):** It was launched by DFS, GOI on 15th Jul'21 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.

Source: CGTMSE & NCGTC websites

Of all the schemes, the CGSMFI was the most useful and impactful for the mF sector. The scheme provided the 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 Lk microfinance borrowers. The CGS I and II schemes have hardly been used by the REs due to unfavourable terms and conditions including annual fee.

Similarly, CGFMU has not been used by majority of REs except a few NBFCs (including one NBFC-MFI) and a couple of SFBs. One of the major concerns is the higher guarantee fee for loans provided to micro units of JLG borrowers in comparison to SHGs, despite both being group base models for facilitating credit to micro units of low-income borrowers, which is a deterrent for MFIs to take benefit from this facility. ECLGS 1.0 was opted by mostly banks and SFBs with microfinance loans but faced some issues at the time of claim settlement due to a guideline on uploading limit of 100 per day for supporting documents which created a backlog for interim claims. This was later resolved by NCGTC.

Credit guarantee is a very important tool which can be used by REs for mitigating credit risk. It is evident that the schemes that are available have not been designed keeping the microfinance players and their borrowers in mind. In this context, CGTMSE is designing a scheme for MFIs which is expected to have a much lower guarantee ceiling, lower lock-in period and single tranche settlement at a reasonable fee. MFIN is actively involved in providing inputs to CGTMSE.

4.3.6 India Micro finance Equity Fund

The ability of NBFC-MFIs to borrow from banks depends on their capitalization. For smaller MFIs mobilizing equity has also been a main challenge as a result of which they are unable to access low-cost debt from banks which has a spiralling effect on their sustainability, growth and in fulfilling the credit needs of their clients.

In Union budget 2011-12, the Government had created India Micro finance Equity Fund (IMEF) with initial corpus of Rs 100 Crore with SIDBI. The corpus was enhanced to Rs 300 Crore in FY 2013-14 for extending equity or any other form of capital to Tier – II and Tier – III NBFC MFIs, with a focus on smaller socially oriented MFIs with the objective of poverty alleviation and achieving long term sustainability of operations in unserved and underserved parts of the country. As per SIDBI annual report 2022-23, the balance in the fund is Rs 310.8 Crore as on March 31, 2023. For a brief period the fund was managed by MUDRA and the entire fund was transferred back to SIDBI in April 2022.

The scheme was re-launched in November 2022 with the aim to provide Equity/Quasi equity (sub-debt) to Tier II (50,000 and 250,000 borrowers) and Tier III (<50,000 borrowers) NBFC-MFIs & all Non NBFC-MFIs. However, it seems that there has been no utilization as the fund balance remains the same level as on March 31, 2022, which may be due to the stiff criteria for equity support which the small MFIs are unable to fulfil. Some of the key issues and solutions related to IMEF scheme are as below:

- The quantum of support under IMEF is up to Rs 3 crore per MFI (may go up to Rs 5 crore in deserving cases). The amount of investment is small, and will not make any material impact on the company. As of Mar'23, the average total equity of 12 MFIN Member MFIs with borrowers base less than 50,000 is Rs 14.8 Cr. For these MFIs an investment of Rs 3 Cr in equity would be a decent 20%. But the average total equity of 124 MFIN Member MFIs with borrowers' base between 50,000 to 250,000 is Rs 49.3 Cr and the max investment of Rs 3 Cr would be about 6% of total equity. Within this group there are 2 MFIs whose total equity is in the range of Rs 100 Cr and for them the max investment of Rs 5 Cr (deserving cases) would be ~ 5% of total equity. SIDBI should consider enhancing the limit of Rs 3 Cr (& 5 Cr for deserving cases) for quantum of support, for it to be meaningful for the MFIs.

- As a practice, SIDBI also nominates a director on the Board which may not be acceptable to the MFI unless the investment is substantial. There should be a minimum threshold of investment (say, SIDBI investment as a ratio of existing Equity of an MFI), for eligibility for a nominee director on MFI's Board.
- Qualitative eligibility criteria on MFIs operating in un/under served areas and outreach to poor are difficult to measure. It is not clear how such areas are defined. There could be underserved areas/pockets within more prosperous districts as well. This is important for an MFI to know as it is one of the eligibility criteria for consideration of support under IMEF. Similarly, how does one define poor? As per RBI new regulations, a household having income less than Rs 3 Lakh per annum is a microfinance client and the same norm should be used.
- Stiff grading/rating criteria which makes MFIs ineligible to apply. In addition there is confusion between grading and rating – the scheme mentions minimum MFI grading norm of Beta+ of M-CRIL, however, grading is always shown as M1 to M8 while Beta+ is a M-CRIL rating sign, not of mainstream credit rating agencies. So, if the eligibility is rating, the norm of min Beta+ is quite stringent. Small MFIs usually do not achieve such a high rating. Of the 26 eligible MFIN Member MFIs under IMEF, 7 MFIs have a rating of Beta+ or better, 14 MFIs have ratings below this level and 5 are unrated and therefore would become ineligible for support under IMEF. However, a grading (or Harmonized COCA grade) of M4 or better is a more relevant indicator and should be adopted. 23 MFIs have a grade of M4 or better and 3 are ungraded.
- Stiff criteria of at least five years of existence for MFIs and its demonstrated track record of running a successful micro-credit programme at least for the last three years. Out of 26 eligible MFIN Members MFIs, 18 have operations/ existence of more than five years. Thus, this criterion would make 8 Members ineligible. The second criteria of demonstrated track record of mF operations of at least 3 years is more inclusive and should be adopted. All remaining 8 Members, fulfil the criteria of mF operations of at least three years.

Summing up, while a more tuned policy taking into account the practical realities, will make IMEF attractive, but because of the conditionalities mentioned above, the flow from IMEF has been paltry. Similarly, there needs to be a parallel fund for equity support to REs in NABARD.

The 26 eligible members of MFIN had an equity base of Rs 811 Cr and on-balance sheet loan portfolio of Rs 2,674 Cr as on 31 March 2023. In order to grow at around 20% (as per industry CAGR), they would need to borrow around Rs 3,000 Cr for which an additional capital of around Rs 600 Cr would be required. MFIN had requested Honourable Finance Minister to enhance IMEF to Rs 1,000 Cr so that the equity needs of small and mid-sized players are met effectively.

During the Covid period, with the decline in base rate of banks and RBI's interest rate cap formula which factored it, the margins of small MFIs were squeezed to a level that they were not even able to cover their operating costs. New RBI regulation has brought much needed relief to small MFIs as they can now price their loans sustainably.

However, the key concern of small MFIs ability to obtain funds at lower costs still remains and it is directly linked to their capitalisation. Relaunch of IMEF is welcome as its focus is to provide equity support to small MFIs. If SIDBI relaxes some of the norms of support under IMEF it will go a long way in catapulting small MFIs to the next level.

Gyan Mohan
Director & CEO, Adi Chitragupta Finance Ltd

4.4 Expanded role of MFIN as a representative body for the sector

MFIN as an industry association within the landscape of microfinance in India, serves as a crucial bridge between regulatory authorities, MFIs, and other stakeholders, fostering growth, promoting ethical practices, and ensuring sustainable development of the sector. MFIN since its inception, has played a pivotal role in representing the microfinance industry in India. Its work in policy engagement, facilitating market infrastructure, notably credit bureaus, setting standards, capacity building, knowledge hub, research, compliance, enforcement, and customer protection, has nurtured and steered India's micro-credit sector. However, recent regulatory changes necessitated an expansion of its role to include all microfinance lenders as members, positioning MFIN as the go-to body for microfinance in the country. Its collaborative leadership in addressing microfinance challenges in Assam further strengthened this claim.

Regulations for the micro-credit sector came in Nov 2011 with the introduction of a new category of NBFC-MFIs. These regulations focused on customer protection (caps on pricing, multiple lending, indebtedness with emphasis on fair interaction, disclosures, grievance redressal, among others) to give a robust foundation to India's micro-credit industry, unparallel by global standards. The specific customer protection and business regulations (limits on customer segments, multiple/over-lending, pricing, loan sizes, tenure etc.) only applied to the NBFC-MFIs.

In 2014, MFIN started its Associate program to engage with the financial inclusion stakeholders besides the NBFC-MFIs. As different types of REs were governed by different regulatory frameworks in the microfinance sector, the Code for Responsible Lending (CRL) was also released in September 2019. CRL was sector-specific and entity-agnostic and included the most critical elements required to be adopted by REs while delivering microfinance. The voluntary acceptance of CRL by the REs and other microfinance providers was a very important step and signalled a consensus across the microfinance sector about the approach to be followed for customer-centric issues such as transparency and guarding against over-lending. This was a critical initiative in ensuring that microfinance achieved its intended objectives in a responsible manner and supported the economic and social progress of its customers.

In less than a decade, the industry saw a ten-fold increase and graduation of some large NBFC-MFIs into Bank/Small Finance Banks (SFBs) and many Banks/NBFCs ventured into micro-credit through direct lending and Business Correspondent (BC) partnerships. Alongside the above developments, equally important shifts were happening in the larger financial inclusion ecosystem, driven by both policy and business push. With regular follow-up and feedback by MFIN Secretariat on the consultative document on uniform regulations for the microfinance industry, the RBI released the harmonized guidelines for microfinance loans on 14th March 2022. The new guidelines ushered in a new era for the microfinance sector where a common regulatory framework was applicable to all REs of RBI. The regulations created a level playing field for all regulated entities in the microfinance space and strengthened the vision of various working groups and task forces of MFIN, to reimagine MFIN as the unified body for microfinance in India and make the necessary structural changes to achieve this vision.

Recognizing the evolving needs of the microfinance sector, MFIN embarked on a transformative journey to expand its role and structure. In the Board meeting on December 20, 2022, the Board unanimously supported the idea of "Unified MFIN". With the reorganization of MFIN as Microfinance Industry Network, a representative body for the sector, MFIN now allows all regulated entities (not only NBFC-MFIs but also the banks, SFBs, NBFCs etc.) with on-book microfinance portfolio to become its primary Member. The governance structure is also calibrated to ensure the representation of all the entity types.

This inclusive approach ensures that the entire spectrum of microfinance entities is represented and can collaborate on issues of mutual concern. With its expanded membership, MFIN is now better positioned to advocate for the interests of the microfinance sector as a whole. It acts as a unified voice to engage with regulatory authorities, policymakers, and other stakeholders, providing valuable insights and feedback on policy matters.

MFIN plays a significant role in disseminating industry-specific knowledge and best practices. It organizes workshops, seminars, and training programs to enhance the capacity of member institutions. With its expanded membership base, it has access to data and insights from a diverse set of entities. This enables it to conduct comprehensive research on the sector, leading to data-driven policy recommendations and enhanced research capabilities.

The expanded role of MFIN as a representative body for the microfinance industry in India is a significant step forward for the sector. MFIN's inclusive approach and its commitment to responsible lending practices, positions it as a vital force for the sustainable growth and development of microfinance in India.

MFIN has always been instrumental in steering the microfinance industry as a balanced and responsible sector lending to the bottom of the socio-economic pyramid. With the growth opportunities along with harmonized guidelines, MFIN is poised to play an even bigger role in the development and growth of the overall microfinance industry.

MFIN, in its new avatar, will continue to lead the industry in a stronger position while protecting the interests of borrowers, financial institutions and all other important stakeholders. The benefit of industry best practices, knowledge sharing, latest cutting-edge technology and digital adoption would be leveraged so as to ensure the best credit service experience for all concerned.

Chandra Shekhar Ghosh
Founder, MD & CEO of Bandhan Bank

05
The future of microfinance – a summary

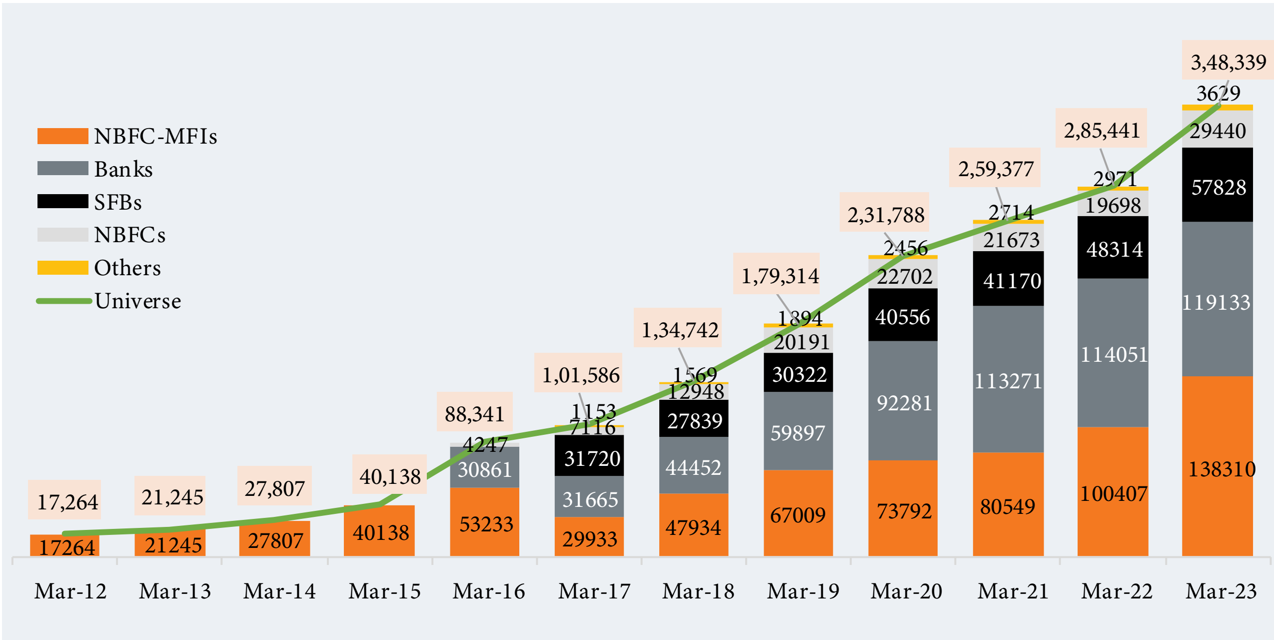
5.1 Industry progress against potential

The new regulations have guided the strengthening of governance in microfinance operations and underlined the importance of responsible lending and client centricity for enabling a secular growth of the sector. Barring the need to calibrate and refine a few policy guidelines detailed in the above sections and which are under discussions and should get addressed in the near future, the new regulations have helped overcome the policy related bottlenecks and lay the ground for the future growth of the sector and evolve the role which different REs will play in promoting financial and digital inclusion.

One of the most evident impact has been the repositioning of the regulated entities involved in microfinance. For the first time since Mar'19 when the Banks, SFBs and NBFCs had full-fledged microfinance operations, NBFC-MFIs have regained the tag of the largest provider of microfinance – it is to be noted that till March 2015 they were the sole providers. **Figure 5.1** maps the growth of microfinance since March 31, 2012 to March 31, 2023 and the contributions of various regulated entities. Overall, the sector has grown by more than 20 times from Rs 17,264 Cr in March 2012 to Rs 3,48,339 Cr in March 2023.

As on 31 March 2023, 211 entities were active in the microfinance space. NBFC-MFIs (82) are the largest provider of micro-credit with a loan amount outstanding of Rs 1,38,310 Cr, accounting for 39.7% to total industry portfolio. Banks (13) hold the second largest share of portfolio in micro-credit with total loan outstanding of Rs 1,19,133 Cr, which is 34.2% of total micro-credit universe. SFBs (9) have a total loan amount outstanding of Rs 57,828 Cr with total share of 16.6%. NBFCs (69) account for another 8.5% and Other MFIs (38) account for 1.0% of the universe. **Box 5.1** shows the overall market size of microfinance in India including both Joint Liability Group (JLG) & Self-Help Group (SHG) models.

Figure 5.1: Growth of microfinance portfolio (Rs Cr) since 2012



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

Box 5.1: Size of microfinance universe

Apart from MFIs, National Rural Livelihood Mission (NRLM) also contributes significantly to the microfinance universe through its SHG Bank Linkage Programme (SBLP). As of March 2023, around 83.4 lakhs SHGs had an outstanding portfolio of Rs 1,98,918 Cr with them [https://daynrlmbl.aajeevika.gov.in].

Considering SHG outreach, the overall size of the universe in terms of GLP as on 31 March 2023 is roughly Rs 5,47,256 Cr.

In the last edition of this report, MFIN had estimated the potential microfinance market size and demand. Based on Compound Annual Growth Rate (CAGR, for the period 2018-19 to 2021-22) of three factors – No. of potential HHs[47], average loan outstanding per UB and depth of outreach (which is number of potential HHs served by microfinance) (detailed estimation method provided in Annex D) – it was predicted that the sector would reach a portfolio size of Rs 3.35 Lk Cr by March 2023 against a potential demand of Rs 11.42 Lk Cr and Rs 5.43 Lk Cr against a demand of Rs 16.96 Lk Cr by 2022-26, on a conservative side. With a more conducive regulatory environment and therefore higher growth expectations, the sector will have a potential demand of Rs 24.63 Lk Cr, on a liberal estimation. **Table 5.1** summarizes the estimation of market size and reach.

The sectoral progress during FY 22-23 shows that the estimated GLP of the sector, number of Unique Borrowers (UB) reached and % of demand covered have been over-achieved. The average loan outstanding per UB has decreased (in comparison to the estimate) mainly because of addition of several new to credit (NTC) customers who usually get small value loans in the initial cycles. As the vintage of these new borrowers increase, the credit

[47] Assuming that 70% of total HHs in rural locations and 50% in urban/semi-urban locations would be potential clientele for microfinance and 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 & future years.[48] 2016, The World Bank. "Principles for public credit guarantee schemes for SMEs"

Table 5.1: Estimated market size & reach

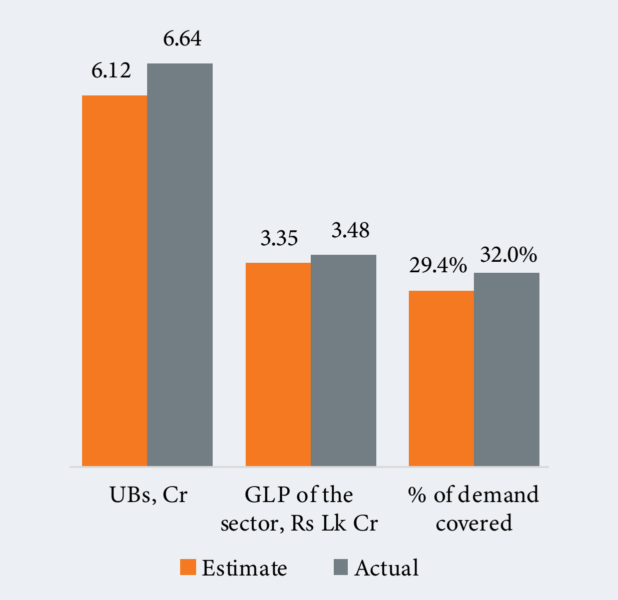
		22-23	23-24	24-25	25-26
A	Potential HHs, Cr	20.83	21.37	21.91	22.48
B	Unique Borrowers, Cr	6.12	6.46	6.82	7.20
C	Av. loan O/s per UB, Rs	54,797	60,969	67,837	75,478
D=A*C	GLP demand, Rs Lk Cr	11.42	13.03	14.87	16.96
E=B*C	GLP of the sector, Rs Lk Cr	3.35	3.94	4.63	5.43
F=E/D	% of demand covered	29.4%	30.2%	31.1%	32.0%

Source: MicroMatters: Macro View - India Microfinance Review 2021-22

demand will also increase in future years. **Figure 5.2** revisits the estimation of market size and coverage of the sector by March 2023 and compares it with the actual position.

So, at the current growth rate of various parameters, and with the achievement of FY 22-23 estimations, the industry is well poised to reach (or exceed) around Rs 5.5 Lk Cr portfolio outstanding against a potential market size of around Rs 17 Lk Cr by 2025-26.

Figure 5.2: Achievement Vs estimate (2022-23)



Source: MFIN estimation; Equifax

5.2 Sector futureproofing initiatives

This year has been sort of a landmark year for the microfinance sector with changes in operational approach of REs particularly in terms of HH level credit assessment and underwriting & tackling the evolving group dynamics, in the credit bureau ecosystem to facilitate compliance with the new regulations and rise of MFIN as the representative body for all REs in the microfinance space. MFIN has been involved in various activities to ensure that the microfinance sector continues to lend responsibly, keep pace with technological developments, have mechanisms to mitigate risks and provide voice and solutions to low-income household and is able to sustain such efforts for a long period of time. Some of the main developments during the year are summarized in the sub-sections below:

5.2.1 Loan officer certification program

The microfinance industry mostly hires young professionals, the majority of whom have no or minimal experience. They also have limited skill set as per the demand of the jobs. This, along with changes in the business process and environment, means a continuous need to train the people. Developments in technology infrastructure and greater accessibility of smartphones helps to ascertain that the training can happen through digital/online means for them. Digital training programs offer consistent quality and innovative content, flexibility, customisation, and monitoring at lower costs on a scale.

To cater to the training needs of frontline officers and the branch managers, MFIN SRO is in the process of developing an online certification program. This would be on the lines of JAIIB and CAIIB by the Indian Institute of Banking and Finance and it is aimed to develop this program as an industry benchmark which the lenders can leverage to complement their own training program.

5.2.2 Employee Bureau

Employee Bureau is a platform created by Equifax in collaboration with MFIN for the microfinance industry to share employee details (personal information and employment history) for greater efficiency and integrity in hiring. Such a platform provides deterrence to employees for appropriate professional behaviour. MFIN has mandated its members to submit data to the Employee Bureau through a directive and encourages its use for the hiring process to support the initiative. Currently, the Employee Bureau has a database of over half a million microfinance employees, with 72 lenders using it to submit and to verify the candidates' credentials with more than 40,000 average monthly enquiries. With a focus on quality and timely submission, the Employee Bureau has become a critical building block in the recruitment process of lenders. As more lenders onboard, the Employee Bureau will become an even more powerful tool to improve the trust and integrity of the recruitment process. The efficacy of the employee bureau will be further strengthened with contribution and usage of employee data by all the microfinance lenders. This may require a regulatory backing, going forward.

5.2.3 Third Party Evaluation

An important component of self-regulation is evaluation of policies and processes related to responsible lending and customer protection of MFIN members. The Third-Party Evaluations (TPE) are conducted by independent external agencies empanelled by MFIN. Clauses from the RBI's new regulatory framework, Industry CoC and other industry best practices are included as indicators in the framework. Disclosures to the customers is an important aspect which is captured while conducting the evaluations.

Four agencies were finalized for empanelment to conduct TPEs. Methodology and framework of the evaluation along with the scoring model, sampling methodology and report format was prepared by the SRO. Evaluations for 5 lenders were completed with visits to their head office, branches, and customers to holistically understand the policy, process and practices adopted for smooth implementation of the regulatory compliances. It involves interviews with management, employees and customers and Inspection of documents.

5.2.4 Natural catastrophe insurance

Various natural catastrophe events that have happened in the last few years, have proved beyond doubt that it impacts the livelihoods of low-income households and that there is a clear need for financial solutions to enable them cope better with such situations. The project team explored options within both parametric and indemnity-based products and came to the conclusion that for the low-income households served by microfinance, parametric solutions would be most suitable considering the need for swift payouts for immediate support to borrowers to tackle the income loss due to natural perils. **Box 5.2** illustrates the key differentiators and benefits of parametric insurance product for microfinance borrowers.

Parametric insurance operates on a unique mechanism distinct from traditional insurance models. One of its standout features is its higher frequency of payouts to policyholders. This is primarily because its compensation structure is anchored on pre-set triggers, such as specific weather conditions or natural disaster metrics, rather than on individual loss assessments.

Box 5.2: Why parametric insurance?

a. Generally, insurance policies cover either physical property or persons. This is the first time a product was conceived & designed to cover income loss due to a catastrophic event for which loan EMI is the proxy.

b. NatCat product provides cover for the insured event, without any requirement of assessment of property damage or personal injury. This also saves cost incurred on surveys. Claim computation is done by Insurers based on the data from an independent source without seeking claim bill from the insured members.

c. The benefit table is simple to understand which clearly describes how a catastrophe event is recognized and what amount would be payable based on severity of the trigger.

d. Multiple pay-outs are possible under the product for the perils covered during the insurance period of 12 months, unlike other policies where only one pay-out is possible. For example if triggers for both cyclone and flood is hit, and the total claim amount is up to number of EMIs covered, the payout will be for both the events.

e. No need for the cumbersome process of claim intimation, claim document submission etc. by the Insured members. Therefore, quick and swift pay-outs – better liquidity with clients (as they don't have to worry about EMIs) to successfully recover after a disaster strikes. Moreover, clients remain eligible for further loans as their existing loan remains standard and does not turn NPA.

f. For MFIs this assumes even greater significance in the context of the RBI circular in which NPAs are to be recognised at day-end processes and once a loan turns NPA it cannot be categorized as standard until entire overdues are paid off. Additionally, since EMIs are taken care of, the provisioning requirements would reduce. The product will also enable expansion to difficult (NatCat prone) areas where MFIs are reluctant to go & ensure access to finance (A2F) to household based there.

g. Since the pay-out is to the MFIs (the master policyholder) they have the choice to ask the borrowers not to pay the no. of EMIs for which the pay-out has been received or to pass on the money to clients for their immediate needs.

h. In a way, the product will also help loan officers maintain good quality of portfolio of their clients in a catastrophe event - one of the key KPAs of their job.

A notable aspect of parametric insurance is its area-based approach. When a predefined event occurs, affecting a particular region or area, all policyholders within that zone receive payouts simultaneously. This collective compensation can give the impression that parametric insurance is pricier compared to other insurance forms. However, a deeper analysis reveals a different perspective. Given the predictability and regularity of payouts, parametric insurance often proves to be a more economically sound choice for many scenarios, especially when considering the balance between premium costs and the likelihood of receiving a payout. Therefore it is essential to approach parametric insurance with a distinct lens, understanding its unique value proposition. Directly comparing its premium rates with other insurance types, such as life or health insurance, might not capture the full spectrum of its benefits and operational nuances.

With this background, a product was developed under IRDAI's regulatory sandbox and trialled in three districts of Odisha. The trial ended in May 2023 and MFIN embarked on an initiative to rigorously test and refine the product through a full-scale pilot to enhance its design, implementation approach, and overall utility for both MFIs and their borrowers. The Asian Development Bank (ADB) has come forward to support this initiative through a Technical Assistance (TA) project titled "Microinsurance for Climate Change and Disaster Resilience: Capacity Building and Implementation Support" from July 2023 to June 2026. The project aims to cover at least 4 states to create awareness among 1 million microfinance borrowers (across 176 branches of about 12-15 partner financial institutions, PFIs) on parametric insurance product that covers multiple perils (cyclone, earthquake, flood, draught & extreme heat/cold) by around 1,000 trained staff of PFIs, leading to product enrolments by around 0.45 million borrowers.

5.2.5 Digitalisation of repayment collections

Microfinance loan disbursements have become largely cashless[48] with almost 99% of disbursements directly into the bank account of the borrowers but the repayment collections are still predominantly in cash and there is growing realization on need for digitalising collections. The pandemic exacerbated this requirement as digital repayment is safe, transparent and convenient.

Microfinance clients are typically women from low-income households in rural locations. Microfinance has been considered a tool of empowerment for these women and for promoting financial inclusion. However, their inclusion into mainstream banking services remains elusive. Empirical evidence and feedback from clients show that their accounts are mainly used for disbursing the loan and withdrawing of the loan amount for further utilization. However, use of these accounts for digital payments has not gained momentum due to lack of savings habit.

MFIN had conducted a pilot program with HSBC's support in 2018-19 to test digital repayment models across eight states, covering around 15,000 clients and the results were quite encouraging with a total of 9,269 digital transactions worth Rs 1 Cr, using Aadhaar Pay, UPI payments and debit card swipe. Around 84% clients covered by the pilot attempted digital payment and feedback from implementing partner MFIs was also encouraging.

Taking into account the experience of the pilot and lessons learned, HSBC is again supporting MFIN for the scale-up phase of the project, which visualizes

(a) Promoting saving habits among microfinance clients and

(b) Enhancing their awareness of digital payment methods for scaling-up of such practices for repayment of loans and making microfinance operations more efficient and transparent.

To achieve this, MFIN along with its implementation partner MicroSave India Consulting Pvt Ltd (MSC) will be undertaking the following interventions, some of which are currently underway.

- Testing & scaling-up of digital payment solutions like Unified Payment Interface (UPI), IVR-based UPI 123PAY, UPI AutoPay and Bharat Bill Payment System (BBPS). Client facing application will also be developed that will have payment features enabled. Suitable Technical Support Providers (TSPs) have been identified for carrying out these activities.
- Training of IT staff and other senior resources on recent developments on digital financial services was conducted at Institute for Development and Research in Banking Technology (IDRBT) covering the latest trends in fintech, such as artificial intelligence, blockchain, and cloud computing. Representatives from all partner MFIs attended this training.

[48] Micrometer Q4 FY 2022-23

- MFI field staff training to ensure that the staff are aware about the digital payments themselves. A suitable Capacity Building Service Provider (CSPs) will be identified for conducting training of trainers (TOT) of partner MFIs. These trainers will further impart the training to the field staff and equip them with training materials and collaterals for awareness generation of borrowers.
- Awareness generation for MFI borrowers through innovative awareness materials, campaigns etc.

The overall goal is to provide cost effective, seamless and user-friendly repayment options to microfinance borrowers using digital methods of payments, in partnership with 8 to 10 selected NBFC-MFIs covering around 0.4 million microfinance clients across 200 branches in 10 states/5 regions over two and a half years (October 2022 to March 2025).

5.2.6 RADAR application

Risk is intrinsic to the Microfinance sector and the quantum of risk is open-ended as loans are offered collateral free to the low-income band, whose sources of income are largely on contractual/ daily wages. Against this backdrop, any field level intelligence pertaining to gaming of the lending model by the existing or potential customers will be critical to the MFIs. Sharing of this stand-alone information gathered by one with other operative MFIs in the region would immensely help CROs in carving out mitigation strategies and minimise the hitherto unquantifiable risk. Thus, understanding the risks and dynamics of the field situation is of immense importance for microfinance institutions.

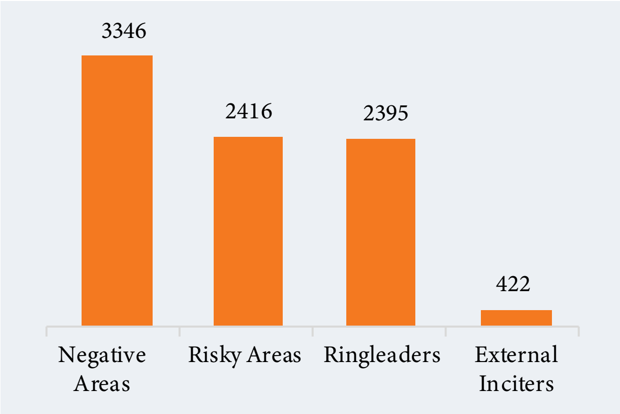
Collaboration and information sharing are paramount aspects of mitigating the business risk for the MFIs. MFIN has been providing three such platforms – District Forum Meetings, State Chapter Meetings and a web-based tool titled 'RADAR' to the members for effective collaboration and information sharing of the field intelligence.

District Forum meetings and the State chapter meetings are facilitated by MFIN and are held every quarter. At these meetings, the sectoral growth, quality, compliance and industry best practices are deliberated. Consensus on way forward on some of the issues and challenges faced are also finalised and implemented. The gist of discussions held, and the consensus arrived at are hosted on the RADAR.

The RADAR Application is an in-house tool designed to provide member institutions with secure and well-organized access to detailed field-level information generated by MFIN district forums. Launched in July 2021, RADAR digitally captures four vital parameters: Negative Areas, Risky Areas, Ringleaders, and External instigators, all of which can cause disruptions in microfinance operations. This micro-level data, both in qualitative and quantitative terms, serves as a critical resource for identifying "early warning symptoms" that empower microfinance institutions to take timely action and prevent potential crises.

RADAR is equipped with REST API support and an open architecture, ensuring effortless integration with external applications and customizations. As of October 2023, RADAR boasts an active user base of 11,164 District Officers, 2,091 State Heads, 2,060 RADAR Single Points of Contact (SPOCs), 630 Lead District Coordinators, 100 Trainers, and 240 CXOs (CEO, COO, CRO), representing various microfinance institutions. An update on RADAR is provided in **Figure 5.3.**

Figure 5.3: RADAR Update as of October 2023



5.3 Opportunities and challenges

This section discusses the future opportunities to enable secular growth of the sector. Some of the challenges which the sector needs to work together to overcome are highlighted in Chapters 3 & 4. A few other pertinent points not necessarily challenges are discussed below.

A dominant proportion of MSME lending (greater than 60%) is in rural and semi-urban areas. These areas have shown a YOY growth in disbursement of 22.3%, which is nearly double that of urban areas. In terms of new originations, rural and semi-urban geographies contribute a 59% share[49]. One in every 2 NTC borrowers in the micro enterprises segment begin their journey with a short-term unsecured loan with 61% availing a loan with a ticket size of <Rs 1 Lk. With a clear focus on these geographies and segments, microfinance is the right fit and offers exciting possibilities for future growth. Though this is also as per national policy objective, MFIs find themselves constrained to fulfil the credit requirement of this segment due to new norms of qualifying assets as discussed in Section 4.3.4.

Funding

The consistent performance of the MF sector in terms of growth over the last decade and the robust recovery from the impact of COVID has led to increased interest from the equity investors and wholesale lenders.

- The IPO of Fusion Microfinance in Nov 2022 received a good response. It is heartening to note that CRISIL has revised the rating of the MFI upwards twice since the IPO.
- Utkarsh Small Finance Bank had a successful IPO in July 2023.
- The IPO pipeline over the next few quarters consists of ESAF SFB and, Jana SFB.
- NBFC-MFIs raised Rs 3,010 crores in equity capital in the first 9 months of FY 22-23[50] which is twice the amount raised in the same period in the earlier two years.

On the debt side, an analysis of the funding pattern over the last 8 quarters shows little change in the contribution of the different sources of funding: AIFIs & Banks provide around 70% of funds and non-bank entities contribute about 20%. In terms of instruments, term loans with a share of 76% and debentures with 16% provide the bulk of funds. Diversification of funding sources continues to be a challenge for NBFC-MFIs. However, as seen during Covid times, bank funding is the first to dry up for NBFCs in case of any adverse external shock. While during Covid RBI came to the rescue by instituting special lines of credit, for future a dedicated line of credit for microfinance is the need of the hour as discussed in Sections 4.3.5 and 4.3.6.

Co-lending is an opportunity which is increasingly being explored. Such arrangements allow the smaller MFIs to have access to lower cost funds and at the same time help banks meet their priority sector lending obligations. This is a new method of lending and engagement norms between banks and non-deposit taking lenders are evolving. In FY 2022-23, Rs 25,000 was disbursed using the co-lending mechanism (CLM)[51]. This was nearly five times the amount disbursed in the previous year through CLM. The sudden rise in disbursements coupled with other concerns have led the RBI to initiate a review. Revision in the guidelines can be expected because of the review.

Microfinance GLP growth mirrors increased economic activity

Economic activity and credit feed on each other: the relationship is bi-directional. An increase in economic activity leads to an increased demand for credit. At the same time, increased supply of credit gives an impetus to economic activity.

[49] 2023, July. CIBIL. "Credit Market Indicators"

[50] 2023, 26 April. Hindu Businessline. "Microfinance industry to record 25% growth in FY24 on surge in disbursements"

[51] 2023, 23 April. Hindu Businessline. "Under the lens. RBI looks askance at co-lending arrangements"

To ensure that the credit risk is managed robustly, and over-indebtedness of borrowers is avoided, an increase in the microfinance portfolio should be evaluated against the growth in economic activity and incomes. Microfinance is targeted at the informal sector: a better interpretation of mF GLP growth can be obtained by comparing it with measures of economic activity for this sector. This is a challenge due to the limited availability of such data. In such situations, proxy variables provide us a useful estimate of economic activity: electricity consumption is one such widely used indicator. As noted by Ranjan and Singh (2017), based on NSSO data, the preferences of poor households with regards to using electricity change with income in a continuous manner. This makes electricity consumption a good proxy for measuring improved economic activity and higher incomes for such households.

The growth in microfinance GLP is plotted against electricity consumption for the Top 10 states (in terms of MF GLP). **Figure 5.4** shows the % increase in electricity consumption (vertical axis) against the % microfinance GLP growth (horizontal axis). **Figure 5.5** shows the same graph for next 10 states. The size of the bubble indicates the relative size of the portfolio in the state. The charts put the GLP growth, relative size of the total portfolio and the increase in economic activity in perspective and provide clues to understand if the growth in MF portfolio is supported by increased economic growth.

Uttar Pradesh is a good case study. It has the 3rd highest GLP after Bihar & TN. Its GLP has also shown a rapid growth of 41% in the last FY. This is much higher than the industry growth of 22%. Does it point to problems in the future? The higher-than-average growth in electricity consumption in UP at 13% points to an increase in economic activity which supports the growth in MF GLP. A similar relationship is seen for states like Bihar and Rajasthan.

Electricity consumption gives useful insights when used alongside other variables and qualitative

Figure 5.4: GLP growth Vs. electricity equirement growth (Top 10 states)

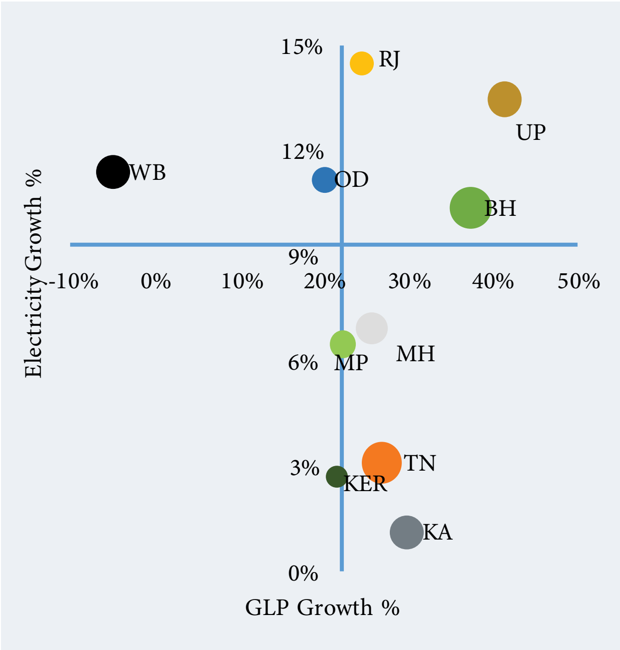
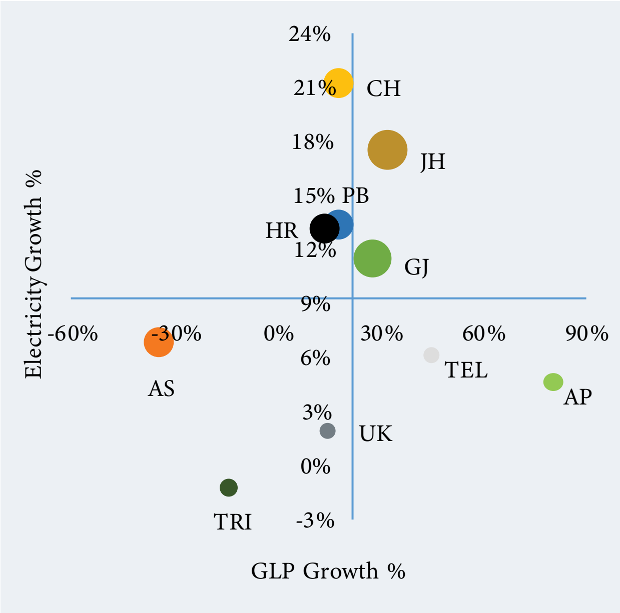


Figure 5.5: GLP growth Vs. electricity growth (next 10 states)



AP - Andhra Pradesh, AS - Assam, BH - Bihar, CH - Chhattisgarh, GJ - Gujarat, HR - Haryana, JH - Jharkhand, KA - Karnataka, KER - Kerala, MH - Maharashtra, MP - Madhya Pradesh, OD - Odisha, PB - Punjab, RJ - Rajasthan, TEL - Telangana, TN - Tamilnadu, TRI - Tripura, UK - Uttarakhand, UP - Uttar Pradesh, WB - West Bengal.

inputs. In the case of West Bengal, a higher-than-average growth in electricity consumption is not reflected in GLP growth, in fact the GLP growth is less than zero because of portfolio quality concerns. A similar observation explains the opposite observation in Karnataka – a high MF GLP growth despite little increase in electricity consumption. The credit behaviour in Karnataka has been traditionally good and encouraged lenders to increase their exposure.

Adopting digital lending processes and the search for a unique identifier

As a result of rapid adoption of digital technologies in customer data acquisition, underwriting, loan disbursement and increasingly in repayments and other processes, MF companies today have a model with an optimum mix of touch and tech. At the same time, it is interesting to note that more than 50% of digital lending through mobile apps and platforms would qualify as microfinance as per the borrower profile. Platforms like Open Credit Enablement Network (OCEN) offer a quick way for a lender to plug and lend. Few MF lenders have started exploring completely digital modes of lending – starting with relationship customers. As the comfort with such processes grows, this channel would offer an opportunity to acquire new customers also.

Accuracy of automated underwriting depends on accurate identification of the borrower so that her credit history can be retrieved from the credit bureau. In retail bureau, using a PAN card (which is linked to an Aadhaar number) or Aadhaar authentication provides a robust solution. In the MF segment, the penetration of PAN card is limited. Most NBFC-MFIs are at various stages of adopting the Aadhaar authentication process. Currently, Voter ID is the de facto standard KYC document used for MF loans. Since the Voter ID is not linked to Aadhaar or any other 'unique document', it is often possible to have multiple Voter IDs. In such a scenario, there is a possibility of beating the search algorithms of the credit bureau. This has implications for the efficiency of the automate underwriting process for such clients.

As such, Aadhaar seems to be the most suitable unique identifier for the microfinance borrowers. The solution is to allow CICs to receive, store and use Aadhaar. Similarly NBFC-MFIs can be allowed to use Aadhaar for client verification and for CIC reporting purposes. Mechanisms can be thought of in which Aadhaar details are not stored in MFI systems and a microfinance borrower provides her Aadhaar details and consent directly to the CIC using biometric verification/ OTP based verification to processing query and generation of CIR.

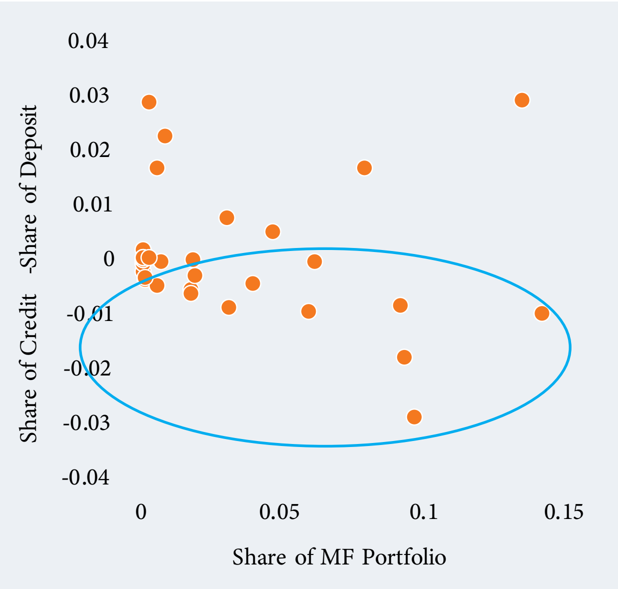
Microfinance helps in correcting the imbalance in credit-deposit ratios across states

It is a well-established fact that increased access to credit leads to an increase in economic growth. As a corollary, states with lower per capita GDP should have access to more credit to help them close the gap with the richer states. But an analysis of the share of the states as a % of All India Credit and Deposits shows that the flow of credit is in the reverse direction. The poorer states (with lower per capita income) contribute more to the national pool of deposits as compared to their share in the credit. On the contrary, the share of poorer states in the disbursal of microfinance loans is higher as compared to the richer states. A larger and robust microfinance has an important role to play in correcting the imbalance between savings and credit distribution and narrowing the income gap among the states.

The data published by RBI in the Basic Statistical Returns shows the quantum of credit, which includes all types of loans (retail, commercial, microfinance), and deposits of Scheduled Commercial Banks. At the national level, the credit-deposit ratio after increasing from 2017 (73.8%) to 2019 (78.3%) declined to 71.7% by 2021 due to COVID. Since then, it has recovered to 75.9% by Mar 2023. 3 southern states: AP, TN & Telangana have a CD ratio of more than 100%. At the other end of the spectrum, among the bigger states, we have Bihar, W Bengal & UP which have a CD ratio of less than 50%. South, West, and North regions having a higher share in credit (by 5.4%, 2% and 1.6% respectively) as compared to their contribution to deposits. The remaining regions consume a lower share of credit from the national pool and contribute comparatively more to the deposits. The gap is at -4.8%, -3.5% and -0.7% for East, Central and North-East regions.

Microfinance reaches difficult to penetrate geographies. Its widespread growth is deepening financial inclusion by bringing new borrowers to the fold of formal financial services. Its focus on lending to the informal sector helps in directing credit to poorer states. **Figure 5.6** shows the difference in the % contribution of credit and deposits of a state to the national pool on the vertical axis against the % of share of the state in microfinance loans.`

Figure 5.6: Microfinance corrects the credit-deposit imbalance in states



A negative reading on the vertical axis denotes that the state contributes more to the national deposit pool as compared to its share in the credit disbursed. As we move towards right, this gap increases. Not surprisingly, the poorer states are clubbed in the negative zone. It is interesting to note that the share of microfinance loans disbursed is high in the states with a higher deposit/credit gap – as the share of a state reduces in overall credit disbursed, MF steps up and tries to correct the imbalance.

The RBI regulations of Mar 2022 have provided an impetus to the growth of the MF sector. The lenders can price the risk and operational expenses in reaching out to newer segments and geographies as well as recover from the mishap of COVID. Investors have a positive outlook, MFIN has restructured to bring the industry together and thus the building blocks have been put in place for growth.

What lies ahead?

The report highlights the financial inclusion landscape and the challenges. Data of banking credit, AIDIS survey as well as other sources clearly demonstrates that microfinance lending is reaching the excluded sections of the society and its contribution to equitable growth is significant. On policy front, the RBI regulations of Mar 2022 have provided an impetus to the growth of the MF sector. Investors have also shown confidence in the improved governance practices and growth potential- SFBs & MFIs have had successful IPOs and some are in the pipeline.

While the foundations for growth are in place, there are a few policy and practice imperatives to ensure that the growth remains on course. On policy front, availability of Aadhar to CICs for deduping, having a credit guarantee scheme suited to the sector, dedicated financing facility for the sector and a relaxation of qualifying assets norm for NBFC-MFIs are the key needed support measures. Practitioners on their side need to spread their operations to virgin or less penetrated areas, strictly adhere to the RBI regulatory framework and Industry CoC and directives in letter and spirit and take proactive steps to strengthen group meetings and arrest staff attrition.

MFIN in its new avatar as all-encompassing body is geared to increase the efforts to ensure no one is left behind and India has equitable growth.

Annex A
Mor Committee vision statements

The six vision statements are:

1. **Universal Electronic Bank Account (UEBA):** By January 1, 2016 each Indian resident, above the age of eighteen years, would have an individual, full-service, safe, and secure electronic bank account.

2. **Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges:** By January 1, 2016, the number and distribution of electronic payment access points would be such that every single resident would be within a fifteen minute walking distance from such a point anywhere in the country. Each such point would allow residents to deposit and withdraw cash to and from their bank accounts and transfer balances from one bank account to another, in a secure environment, for both very small and very large amounts, and pay reasonable charges for all of these services. At least one of the deposit products accessible to every resident through the payment access points would offer a positive real rate of return over the consumer price index.

3. **Sufficient Access to Affordable Formal Credit:** By January 1, 2016, each low-income household and small-business would have convenient access to formally regulated lenders that have the ability to assess and meet their credit needs, and offer them a full-range of suitable credit products, at an affordable price. By that date, each District and every - significant sector (and sub-sector) of the economy would have a Credit to GDP ratio of at least 10 per cent. This ratio would increase every year by 10 per cent with the goal that it reaches 50 per cent by January 1, 2020.

4. **Universal Access to a Range of Deposit and Investment Products at Reasonable Charges:** By January 1, 2016, each low-income household and small-business would have convenient access to providers that have the ability to offer them suitable investment and deposit products, and pay reasonable charges for their services. By that date, each District would have a Total Deposits and Investments to GDP ratio of at least 15 per cent. This ratio would increase every year by 12.5 per cent with the goal that it reaches 65 per cent by January 1, 2020.

5. **Universal Access to a Range of Insurance and Risk Management Products at Reasonable Charges:** By January 1, 2016, each low-income household and small business would have convenient access to providers that have the ability to offer them suitable insurance and risk management products which, at a minimum allow them to manage risks related to: (a) commodity price movements; (b) longevity, disability, and death of human beings; (c) death of livestock; (d) rainfall; and (e) damage to property, and pay reasonable charges for their services. By that date, each District would have a Total Term Life Insurance Sum Assured to GDP ratio of at least 30 per cent. This ratio

would increase every year by 12.5 per cent with the goal that it reaches 80 per cent by January 1, 2020.

6. **Right to Suitability:** Each low-income household and small-business would have a legally protected right to be offered only suitable financial services. While the customer will be required to give informed consent she will have the right to seek legal redress if she feels that due process to establish Suitability was not followed or that there was gross negligence.

Annex B
Chronology of relevant policy and regulatory developments

Reserve Bank of India

April 1, 2022: **Master Circular on SHG-Bank Linkage Programme** – In order to enable Banks to access all information related to SHG-Bank Linkage Programme at one place, RBI issued this master circular which incorporates all existing guidelines/ instruction as an annexure.

April 11, 2022: **Compliance Function and Role of Chief Compliance Officer (CCO):** Framework for Compliance Function and Role of Chief Compliance Officer in Non-Banking Finance Companies in Upper layer and Middle Layer.

April 19, 2022: **Disclosures in Financial Statements- Notes to Accounts of NBFCs** - NBFCs are required to make disclosures in their financial statements in accordance with existing prudential guidelines, applicable accounting standards, laws, and regulations. The additional disclosure requirements for NBFCs in accordance with the SBR framework are outlined in the Annex of this circular. These disclosures are in addition to and not in substitution of the disclosure requirements specified under other laws, regulations, or accounting and financial reporting standards. More comprehensive disclosures than the minimum required are encouraged, especially if such disclosures significantly aid in the understanding of the financial position and performance.

April 19, 2022: **Loans and Advances – Regulatory Restrictions - NBFCs:** In the circular on "Scale Based Regulation (SBR): A Revised Regulatory Framework" for NBFCs issued on October 22, 2021, certain regulatory restrictions on lending were introduced in respect of NBFCs placed in different layers. Detailed guidelines in this regard are placed as Annex to this circular. These guidelines shall become effective from October 01, 2022.

April 19, 2022: **SBR for NBFCs: Capital requirements for Non-Banking Finance Companies – Upper Layer (NBFC-UL):** According to this circular the NBFC in NBFC Upper Layer as per Scale Based Regulation are required to maintain Common Equity Tier 1 capital of at least 9 per cent of Risk Weighted Assets. The circular provides detailed guidelines in this regard.

April 19, 2022: **Large Exposures Framework for Non-Banking Financial Company - Upper Layer (NBFC-UL)** – The circular provides detailed guidelines on Large Exposure Framework (LEF) prescribed for NBFCs in the Upper Layer. These guidelines are aimed at addressing the credit risk concentration associated with large exposure for NBFCs. A large exposure is defined as an exposure which is greater than 10% of the NBFC-UL's eligible capital base.

April 29, 2022: **Guidelines on Compensation of Key Managerial Personnel (KMP) and Senior Management in NBFCs** – These guidelines provide broad guidance to NBFCs and their Nomination and Remuneration Committee (NRC) to design compensation policy. The circular outlines the constitution, powers, function, duties and mandate of the NRC. It also provides detailed principles for designing of compensation including fixed and variable pay, bonus and clawback option.

May 19, 2022: **New Definition of Micro, Small and Medium Enterprises – Clarification**

June 6, 2022: **Provisioning for Standard assets by Non-Banking Financial Company – Upper Layer** – The circular outlines the rate at which provisioning has to be maintained for NBFC-UL in respect to standard assets. A summary of the rate of provisioning applicable for different asset classes is mentioned below:

Category of Assets	Rate of Provision
Individual housing loans and loans to Small and Micro Enterprises (SMEs)	0.25 per cent
Housing loans extended at teaser rates	2.00 per cent, which will decrease to 0.40 per cent after 1 year from the date on which the rates are reset at higher rates (if the accounts remain 'standard')
Advances to Commercial Real Estate – Residential Housing (CRE - RH) Sector	0.75 per cent
Advances to Commercial Real Estate (CRE) Sector (other than CRE-RH)	1.00 per cent
Restructured advances	As stipulated in the applicable prudential norms for restructuring of advances
All other loans and advances not included above, including loans to Medium Enterprises	0.40 per cent

Those NBFCs which are calculating impairment allowance as per IndAS presently, the circular specifies that these NBFCs will continue with the calculations in the same manner. Above rate of provisions will form the floor for the impairment allowance calculation.

September 2, 2022: **Guidelines on Digital Lending** – Subsequent to the Recommendations of the Working Group on Digital Lending, RBI issued the detailed guidelines on Digital Lending. This guideline covers the entire spectrum of activities of digital lending including Loan Disbursal, Servicing and Repayment, Collection of fees and charges etc., Disclosures to borrowers, Grievance Redressal, Assessing the borrower's creditworthiness, Cooling off/look-up period, Due diligence and other requirements with respect to LSPs. The circular also provides guidelines on collection, usage and sharing of data with third parties, storage of data, comprehensive privacy policy and technology standards. In terms of reporting to CICs – the circular specifies that all lending irrespective of channel used, secured/unsecured, tenure etc needs to be reported to all CICs and how the loss sharing arrangements in case of defaults will work.

September 7, 2022: **Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)** – In the Master Circular on Basel III Capital Regulation dated April 1, 2022, banks are permitted to apply zero percent risk weights in respect of claims on Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC). In order to bring homogeneity in regulation RBI has now made this clause applicable to all REs' which are eligible MLIs under any scheme which satisfies all necessary conditions enlisted in this circular.

October 11, 2022: **Multiple NBFCs in a Group: Classification in Middle Layer** – As per this guideline, the classification of an NBFC in the Middle Layer will be determined by the consolidated asset size of all group entities and hence if at the group level asset size is greater than Rs 1,000 Cr, all NBFC-ICC, NBFC-MFI, NBFC-Factor and NBFC-MGC will be considered in the Middle layer irrespective of their individual asset size. These guidelines are effective from October 1, 2022. Provisions contained in this circular will not be applicable for classifying an NBFC in the Upper Layer.

December 13, 2022: **Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures** – RBI issued these guidelines mandating submission of credit information to CICs even for cases under NCLAT and NCLT.

Government of India

May 6, 2022: **Ministry of Micro, Small and Medium Enterprises** extended the deadline of registration of MSMEs' to June 30, 2022.

June 6, 2022: **Jan Samarth Portal** was launched which provides access to 13 credit linked government schemes to citizens.

January 2, 2023: **Relief under category II of AMFIRS** was rolled out by Chief Minister of Assam Dr. Himanta Biswa Sarma. A total of 5024 beneficiaries of Gohpur, Behali, Sootea and Biswanath received their cheques at a programme held at Biswanath.

Annex C
Steps by the MFIN - SRO for customer protection

Implementation of the revised Industry Code of Conduct

The 4th edition of the Code of Conduct (CoC) was released in Oct 2022. The primary focus of the CoC is to promote responsible lending practices and customer protection. The members signed the CoC to express their willingness to follow these standards.

Directives and Advisories

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

- Directive on implementation of RBI guidelines from 1st Oct 2022 regarding implementation of Regulatory Framework for Microfinance Loans, Recognition of NPAs and CIC reporting.
- Directive on reporting loan repayment obligation to income ratio of a household. This requires proper assessment of borrower household income and its loan repayment obligations to understand the level of indebtedness. This data forms an important part of the quarterly report which MFIN submits to RBI.
- Directive on transparently advertising the interest rates charged by the lender. This requires the lenders to prominently display the minimum, maximum and average interest rates charged on microfinance loans on their respective websites.
- Directive on information to be provided in the loan card/factsheet to ensure inclusion of all the information mentioned as mandatory in the regulatory framework.

Compendium of MFIN Directives and Advisories

The revised and updated compendium of MFIN Directives and Advisories approved by the SRO governance committees (SROC and EC) was released to the members on 15th Feb 2023. The existing compendium was reviewed in lieu of the new microfinance regulation and updated accordingly.

Letter on third-party products

A letter was issued by the SRO reiterating the directive on the sale of third-party products (TPP). This was done after 2 customer surveys conducted by MFIN-CGRM indicated instances reported by the customers of TPP being bundled with the primary credit product and its purchase made mandatory.

Third Party Evaluation

An important component of self-regulation is evaluation of policies and processes related to responsible lending and customer protection of MFIN members. The Third-Party Evaluations (TPE) are conducted by independent external agencies empanelled by MFIN. TPE assesses adherence to the RBI's regulatory framework and Industry code of conduct.

Customer complaints received in MFIN Toll free No

MFIN SRO manages a call centre which provides the facility to attend to incoming calls from borrowers of MFIN members in 12 languages. MFIN took up nearly 1800 complaint cases received in the MFIN Customer Grievance Redressal system during FY 22-23 with the respective lenders for resolution and necessary actions. 82% of the complaints were resolved within a TAT of 15 days.

Annex D
Estimating microfinance market size & demand

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

a) **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.

b) **Average credit demand of microfinance HHs.** The new regulations allows maximum 50% Fixed Obligation to Income 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)[52] 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%.

c) **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%.

Using these three factors and actual growth rates, MFIN had estimated that as of March 2022 the total microfinance market size in terms of GLP will be 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 5.1** in Section 5 of this report shows the estimations.

[52] 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.

Annex E
Microfinance in news

Role of Microfinance Institutions in India's Growth Story and women empowerment

Microfinance institutions (MFIs) play a pivotal role in India's development by providing financial services to underserved populations. They empower individuals, especially women, with access to credit, savings, and insurance, fostering entrepreneurship and poverty alleviation. MFIs promote financial inclusion, boost economic growth, and enhance livelihoods in rural and urban areas. This inclusive finance model empowers marginalized communities and contributes to India's overall socio-economic progress.

According to PwC, the global market size of the MFI industry is expected to grow by USD122.46 billion from 2021 to 2026 at a compound annual growth rate of 11.61 per cent. Moreover, global development agencies and several governments have made concerted efforts to alleviate poverty through micro-credits.

https://www.forbesindia.com/article/take-one-big-story-of-the-day/lending-to-the-bottom-of-the-pyramid/75701/1

https://timesofindia.indiatimes.com/blogs/voices/how-microfinance-can-help-in-the-emergence-of-india-as-an-economic-superpower/

https://economictimes.indiatimes.com/industry/banking/finance/mfis-to-play-leading-role-in-indias-economic-growth-study/articleshow/96990049.cms?from=mdr

https://www.outlookhindi.com/business-and-economy/policies/microfinance-a-major-factor-in-women-empowerment-75044

"The fact that a majority of their loans have weekly payments means their customer connect is stronger."

Alok Misra, CEO, MFIN

Lastly, CreditAccess Grameen has adopted a policy that recognises bad loans at the 60-day mark rather than the regulatory requirement of 90 days. As on March 2022, bad loans beyond 60 days stood at 3.2 percent of the portfolio. This means their bad loan numbers are overstated when compared to the rest of the industry. "The fact that a majority of their loans have weekly payments means their customer connect is stronger," says Misra of MFIN, pointing out that it helps them come up to speed with borrower problems earlier.

RBI Revamped Regulatory Framework for Microfinance

Extremely comprehensive, RBI's harmonized regulations ushered in a new era for the microfinance sector where a common regulatory framework will be applicable to all Regulated Entities (REs) of the RBI. Besides creating a level playing field, the framework will address issues of over indebtedness and multiple lending which were of paramount concerns for the sector.

https://www.businessinsider.in/finance/news/customer-protection-guiding-light-of-revamped-microfinance-regulations-says-rbi-deputy-governor/articleshow/95352941.cms

https://www.moneycontrol.com/news/business/customer-protection-at-core-of-rbis-regulations-for-microfinance-says-deputy-governor-rajeshwar-rao-9462141.html

https://www.financialexpress.com/opinion/ensuring-consumer-safety/2582775/

https://www.financialexpress.com/business/banking-finance-various-rates-emerging-for-different-products-customer-segments-alok-misra-ceo-director-mfin-2517899/

DIGITAL LENDING

ONLINE LENDERS MUST FOLLOW ASSET-CLASS BASED REGULATIONS & FOCUS ON CONSUMER PROTECTION

Ensuring consumer safety

ALOK MISRA & VINAY K SINGH

Regulations lay emphasis on an easily accessible customer grievance redressal system. Low-income borrowers often have low education levels. This reflects in their limited ability to engage with formal organisations

GUEST VIEW

Digital lending to low-income customers needs a closer review

ALOK MISRA, CHIEF EXECUTIVE OFFICER & DIRECTOR, MFIN

'Various rates emerging for different products & customer segments'

The benefits of the revised framework for microfinance loans will become visible over the next six-12 months, says **Alok Misra**, *CEO & director of industry body MFIN. In an interview with* **Mithun Dasgupta**, *Misra says under the new set of regulations, a range of interest rates is expected to emerge for different products and customer segments, and it would be erroneous to apply simplistic price quantity models to such a market. Excerpts:*

Q&A

The RBI on March 14 released the revised framework for microfinance loans to put an end to regulated interest rates and harmonise micro-lending norms across banks and non-bank lenders. Now, what kind of benefits are NBFC-MFIs getting from it?

The earlier regulations were specifically meant for NBFC-MFIs who were required to have 85% of their assets in the microfinance segment and several other microbusiness rules on loan amount, pricing etc. So, you had a situation where organisations lending to poorer, bottom-of-the-pyramid customers were more tightly regulated than players like banks. These regulations were released in 2011 and were appropriate for that point in time. Over the last decade, NBFC-MFIs have grown their portfolio manifold and have matured in terms of professionalism. They now service 2.57 crore customers with a gross loan portfolio of ₹87,444 crore and a market share of just above 30% as of December 2021. They are now ready to be allowed more flexibility to design their own policies just like other players like banks. This is what the RBI has recognised – the regulations of March 2022 are a recognition of the growth and maturity of NBFC-MFIs.

The regulations allow the NBFC-MFIs to have board-approved policies for income assessment and transparent risk-based pricing, among others. This will allow these companies to be more strategic and innovative in their product offering and cater to the sub-segments in a more efficient and focused manner. These benefits would become visible over the next 6-12 months.

Has the revised framework helped NBFC-MFIs acquire more customers?

Over the last decade, NBFC-MFIs have grown their portfolio manifold and have matured in terms of professionalism. They now service 2.57 crore customers with a gross loan portfolio of ₹87,444 crore and a market share of just above 30% as of December 2021

It is too early to give the growth in the customer number due to the policy impact. At present, across all the regulated entities, 5.57 crore low-income borrowers are being provided small scale credit services with a gross loan portfolio of ₹2.56 trillion as of December 31, 2021. It is expected that with these policy changes, the low-income borrower outreach will expand to 10 crore in three-four years, bringing a significant number of new-to-credit customers to formal finance.

A few microfinance entities have already increased their lending rates. Will it initially dampen the loan growth?

The regulations allow lenders to have a robust and transparent board-approved pricing policy which will take into account the different costs and an acceptable profit margin. The emphasis is on risk based pricing. The policies and their applications are subject to regulatory oversight and inspection. We need to understand that different products offered by microfinance institutions would have different costs associated with them. These costs could be pertaining to operations, geography, client risk assessment or expected credit losses, which could, in turn, depend on multiple factors. Any changes in lending rates would mainly depend on change in cost of funds for the lender.

One must also appreciate that there is no 'one' interest rate applicable. We see a range of interest rates emerging for different products and customer segments. Also, it would be erroneous to apply simplistic price-quantity models to such a market. With around 5 crore borrowers, there is substantial potential for growth. Among other things, lenders are leveraging technology and different sources of funding in order to make loans available to more customers at the bottom of the pyramid.

What is the outlook for the sector in the current financial year?

The first three months of 2022 have been healthier in every aspect – credit and disbursement growth, collections and lower quantum of provisioning. So, I feel the current fiscal will likely see a revival in growth.

Has collection efficiency returned to the pre-pandemic level?

Yes, the collection efficiency is significantly improving. A big number of lending entities, including banks and NBFC-MFIs, are reporting over 90% and some of them nearly 100% collection efficiency in some regions. As the pick-up in economic activity improves, the propensity to repay on time is rising. The new regulations will further spur the growth due to innovative products targeted at specific sub-segments.

Microfinance and Financial Inclusion

Microfinance loans are gaining momentum due to their inclusive nature. By offering small, accessible loans to low-income individuals and entrepreneurs, microfinance institutions empower communities. These loans fuel entrepreneurship, address financial disparities, and foster economic growth, making them a vital tool in promoting financial inclusion. Additionally, microfinance incorporates financial literacy and entrepreneurial training, equipping borrowers with the skills needed to manage their finances effectively and grow their businesses. This knowledge transfer enhances their ability to navigate the formal financial system over time.

https://www.thehindubusinessline.com/opinion/microfinance-is-broadening-and-deepening-financial-inclusion/article66235482.ece

https://www.financialexpress.com/business/banking-finance-co-lending-pacts-between-nbfcs-gaining-traction-3012409/

https://timesofindia.indiatimes.com/blogs/voices/empowering-msmes-how-mfis-drive-financial-inclusion/

Microfinance is broadening and deepening financial inclusion

Vinay Kumar Singh

Providing the poor with easy access to credit in a sustainable manner has been the holy grail for policymakers. Despite efforts like nationalisation of banks in 1969, establishment of regional rural banks and the RBI drive at financial inclusion through priority sector lending by banks, the All India Debt & Investment survey of 1992 revealed wide gaps in credit availability, especially at the bottom of the pyramid.

Post 1991, coinciding with the financial sector reforms, self-help group (SHG) and joint liability group (JLG) lending models were two innovations which have enabled a rapid spread of microfinance across the country. At present, microfinance meets the credit needs of nearly 12 crore families with a total lending portfolio of about ₹4.9 lakh crore. A study by NCAER (National Council of Applied Economic Research) in 2021 estimated the contribution of microfinance to gross value added (GVA) at more than 2 per cent while generating nearly 12 million jobs.

Today, microfinance is available in nearly 93 per cent districts of India with more than two lakh frontline employees distributing credit and associated services.

High frequency of customer interactions through weekly or fortnightly group meetings underpin sustained efforts at financial literacy as well as quick resolution of customer grievances. Since the borrowers belong to the low income segment and often have low literacy levels, frequent face-to-face interactions are one of the reasons behind the success of the JLG model.

ADOPTING TECH

Group Recognition Test (GRT) conducted after the formation of a new borrower group plays an important part in promoting financial literacy. MFIs (microfinance institutions) have been increasingly adopting technology to enhance operational efficiency, improve underwriting models and reduce expenses while continuing the focus on customer-centricity.

Audio-visual content in vernacular languages is widely utilised to continuously impart financial literacy.

SMALL LOANS. MFIs are the forefront

A separate credit bureau for microfinance was established about a decade back. Intense efforts by MFIs and credit bureaus have led to the development of robust databases and a credit bureau report is an essential part of underwriting now.

Digitalisation initiatives have been aligned to the rapid diffusion of smartphones and growing comfort of borrowers with digital modes of transactions.

Today, nearly 100 per cent of loans are digitally disbursed directly into the bank account of the borrowers and an increasing number of repayments are also being done digitally.

The RBI regulations for microfinance provide an effective framework for customer protection. This framework is supported by RBI recognised self-regulatory organisation (SRO). The SRO supports the MFIs in the implementation of the regulations, takes initiatives for capacity building, improves governance through regular guidance and surveillance and provides a platform for resolving sector level challenges.

In fact, microfinance is the only sector where an SRO has been approved by the RBI. Customer grievance redressal continues to be an important area of focus.

As a result of these efforts, the microfinance sector has grown nearly 20 times in the last decade. The microfinance regulations introduced by the RBI in March 2022 provide a framework for further strengthening of the sector.

The writer is Head, Self-Regulation and Compliance, MFIN

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CREDIT CULTURE

Alok Misra, chief executive, MFIN

Policymakers have understood the importance of credit culture and Microfinance Institutions Network does not see the threat of populism impacting the sector anymore

SIDBI to revamp the microfinance equity fund scheme to support the small and medium sized micro lenders

SIDBI (Small Industries Development Bank of India) is set to revamp its microfinance equity fund scheme, reinforcing its commitment to bolstering small and medium-sized micro-lenders. This initiative underscores SIDBI's dedication to empowering grassroots financial institutions, promoting financial inclusion, and driving economic growth across India.

https://economictimes.indiatimes.com/industry/banking/finance/banking/sidbi-likely-to-revamp-microfinance-equity-fund-scheme/articleshow/95357454.cms?from=mdr

https://bfsi.economictimes.indiatimes.com/news/banking/sidbi-likely-to-revamp-microfinance-equity-fund-scheme/95358725

WHY SIDBI IS THE NEW 'FINTECH LENDER' OF INDIA

MC Interview: SIDBI plans to lend to 20 alternative investment funds this fiscal, says Chairman Sivasubramanian Ramann

ASSISTANCE FOR SMALLER PLAYERS

Microlenders in Talks with Sidbi to Revamp Equity Fund Scheme

Our Bureau

Kolkata: The Small Industries Development Bank of India (Sidbi) may revamp the microfinance equity fund scheme to support the small and medium-sized microlenders, which perennially struggle to get equity as well as debt funding.

The Microfinance Institutions Network (MFIN) is in talks with Sidbi to revamp the fund, MFIN chief executive Alok Misra said. He added that the condition of the smaller MFIs has not improved significantly, but is now better than last year when they faced a severe liquidity crunch.

"We are now geared to assisting the sector in its next phase of progression through mainstreaming of informal micro-enterprises that would be the real engines of growth," Sidbi chairman Sivasubramanian Ramann was quoted as saying at an event to unveil MFIN's second microfinance review report.

The India Microfinance Equity Fund was a ₹300-crore quasi-equity and debt facility targeted to support smaller MFIs. Sidbi had committed ₹200 crore to 65 microfinance institutions until March 2019 and disbursed ₹144 crore. After that, the fund became largely inactive.

Capital from Sidbi would help them to leverage and sustain.

Last year, the Reserve Bank of India came up with ₹48,000 crore of funding facilities to ease out the sector's liquidity stress. While big MFIs benefit the most from these, smaller ones remained mostly starved of liquidity.

The microfinance sector contributes about 2% of the country's gross value added and created job opportunities for 15 million people.

As of March 2022, about 200 different entities were active in the microfinance space. Twelve banks active in microfinancing through the joint liability group model held 40% of the total micro-credit of ₹2.85 lakh crore.

NBFC-MFIs (84) are the second largest provider of micro-credit with 35.2% of the total industry portfolio, followed by small finance banks (9) with 16.9% share, other non-banks with 5.9% and other MFIs with 1%.

Acquisitions and Mergers

Year 2022-23 promised some exciting changes. Banks looked to acquire microfinanciers to get their lucrative high-yielding loan book and tap into the under-banked customer segment. There was Kotak Mahindra Bank that acquired Sonata Finance. News came that Yes Bank was considering acquiring smaller entities, especially from the microfinance segment.

Chennai-based Inditrade Microfinance announced the takeover and merger of the Kolkata-based Janakalyan Financial Services however the same was called off as it failed to get regulatory approval. The highlight of the year was the acquisition of Ananya Birla's Chaitanya India Fin by Svatantra MFI. The acquisition made Svatantra the second largest MFI in the country.

Kotak Mahindra Bank acquires microfinance institution Sonata Finance for ₹537 crore

https://www.moneycontrol.com/news/business/banks/yes-bank-open-to-acquiring-microfinance-entity-as-1-1-billion-fundraise-gains-pace-md-says-8946091.html

https://www.businesstoday.in/latest/story/ananya-birlas-svatantra-microfin-to-acquire-sachin-bansals-chaitanya-india-fin-cred-for-rs-1479-cr-393314-2023-08-08

Svatantra Microfin acquiring Sachin Bansal's Chaitanya is a positive news both for the microfinance sector and Svatantra. Based on March, 23 figures, the acquisition will catapult Svatantra Microfin to second spot amongst NBFC-MFIs with AUM of around Rs.12,500 crore. The acquisition is synergistic as it gives Svatantra strategic outreach in South India. From the Sector viewpoint, while Birla Group's Svatantra is known for its efficient operations and responsible lending, higher size will further strengthen it as also contribute to higher efficiency through economies of scale.

Dr. Alok Misra,
CEO & Director, Microfinance Industry Network (MFIN)

Svatantra-Chaitanya deal not a sign of M&A wave in MFI space

Experts say huge business prospects for all players to grow

RISING TIDE

Listed NBFC-MFIs back in black in Q1

Ananya Birla's firm to buy Sachin Bansal's Chaitanya India Fin

Funding

Light Microfinance, an Ahmedabad-based micro finance institution, raised Rs 196 crore in a Series B funding round led by British International Investment, the UK's development finance institution and impact investor. All three of the company's existing investors, Nordic Microfinance Initiative, Triple Jump BV, and Incofin IM, also participated in this round. Belstar Microfinance raised equity of Rs 275 crore. US Development Finance Corp lent USD 35 mln to CreditAccess Grameen to support women entrepreneurs, and many more. MFIN's Micrometer shows that during Q3 FY 22-23, NBFC-MFIs received a total of Rs 15,951 Cr in debt funding, which is 22.5% higher than Q3 FY 21-22.

https://yourstory.com/2022/09/light-microfinance-rs-196-cr-series-b-british-international-investment

https://www.freepressjournal.in/business/belstar-microfinance-raises-equity-capital-of-rs-275-cr

https://www.aninews.in/news/business/us-development-finance-corp-lends-usd-35-mln-to-indias-creditaccess-grameen-to-support-women-entrepreneurs20221019094711/

https://yourstory.com/2022/06/funding-alert-satya-microcapital-japan-based-investor-gojo-and-company

IPOs

It was a proud moment for the industry to see microfinance institutions go for an IPO. News of IPO of Fusion Microfinance made news while also that of Muthoot Microfin.

https://www.outlookindia.com/business/muthoot-pappachan-group-plans-rs-1-800-crore-ipo-for-mfi-arm-news-235906

https://indianexpress.com/article/business/market/fusion-micro-finance-ipo-all-you-need-to-know-8244139/

Microfinance Growth

The sector's performance has been closely followed by media, analysts, and investors. The sentiment for the larger part of the year was upbeat. It was reported that the growth in microfinance lending in the rural market outpaced that of urban markets according to data from CRIF High Mark. Microfinance loan portfolio went up 22% to Rs 3.48 trillion in FY23. It was interesting to note that non-bank lenders surpassed banks in microlending segment. It is predicted that Microfinance industry is to record 25% growth in FY24 on surge in disbursements.

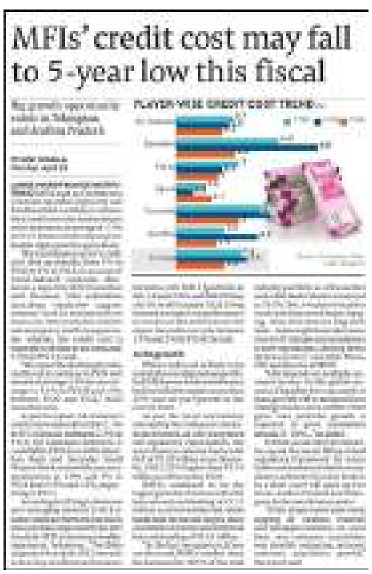
https://www.thehindubusinessline.com/money-and-banking/microfinance-industry-to-record-25-growth-in-fy24-on-surge-in-disbursements/article66781904.ece

https://economictimes.indiatimes.com/industry/banking/finance/non-bank-lenders-surpassed-banks-in-microlending-segment-in-september-2022-report/articleshow/97703891.cms?from=mdr

https://www.businessinsider.in/personal-finance/news/microfinance-lending-shows-strong-growth-in-2022-nbfc-mfis-dominate-the-market/articleshow/99112629.cms

https://www.business-standard.com/finance/news/microfinance-loan-portfolio-rises-by-22-to-rs-3-48-lakh-cr-in-fy-23-123061300913_1.html

https://www.financialexpress.com/industry/sustaining-mfis-growth-momentum/2962344/


MFIs' credit cost may fall to 5-year low this fiscal


Sustaining MFIs' growth momentum

New Launches – MFIN Launches the Code of Conduct, 4th Edition and India Microfinance Review 21-22

Code of Conduct

The 4th Edition of the Code of Conduct was jointly launched with Small Industries Development Bank of India (SIDBI), Association of Small Finance Banks of India (ASFBI), Sa-Dhan and Finance Industry Development Council (FIDC).

The CoC was released at the hands of Mr Sivasubramanian Ramann, Chairman & Managing Director, SIDBI and Mr. J P Sharma, Chief General Manager – Department of Regulation, Reserve Bank of India (RBI), at an online event attended by microfinance institutions of the sector.

https://www.aninews.in/news/business/business/microfinance-industrys-code-of-conduct-4th-edition-released-by-sidbi-cmd-and-cgm-department-of-regulation-rbi20221007161235/

https://www.thehindubusinessline.com/money-and-banking/microfinance-industry-body-releases-fourth-edition-of-code-of-conduct/article65969764.ece

India Microfinance Review FY 21-22

India Microfinance Review FY 21-22 was launched by Deputy Governor of the RBI, Shri M. Rajeshwar Rao in the presence of Mr Sivasubramanian Ramann, CMD-SIDBI.

The report presented a snapshot of the microfinance sector, microfinance regulation – a new paradigm of asset-based regulation, resilience of microfinance, initiatives for future proofing at the sector, institution and client level and the progress along with opportunities and challenges.

The launch event was held in partnership with HSBC Bank, M-SWASTH by M-insure, a technology-driven company focusing on digital health inclusion and Craft Silicon, a leading financial and technology solutions provider.

https://www.apnnews.com/mfin-releases-2nd-edition-of-india-microfinance-review-fy-2021-22/

https://www.livemint.com/news/india/rbi-deputy-governor-says-customer-protection-core-of-microfinance-regulation-11667808429968.html

https://www.financialexpress.com/business/sme-msme-fin-microfinance-82-of-loan-portfolio-concentrated-in-10-states-only-says-rbi-deputy-governor-2781113/

'10 States account for 82% of microfinance loan portfolio'

New microfin norms will bring down credit risk: RBI

Times News Network

Mumbai: The RBI has said that its regulations on microfinance are aimed at improving the credit worthiness of borrowers and enable them to raise loans at lower interest rates.

Under the new regulatory arrangement, rule-based guidelines on pricing of loans have been replaced with a principle-based framework based on enhanced disclosures and transparency requirements, deputy governor M Rajeshwar Rao said.

Speaking at the launch of MFIN India's microfinance review at Mumbai, Rao elaborated the key elements of microfinance regulation aimed at bringing down the cost of credit for the borrower.

KEEP RATES LOWER TOO

According to Rao, the cap on repayment obligations is expected to nudge lenders to keep the interest rates low so that the repayment instalments do not exceed the maximum prescribed limit for repayment obligation. Second, measures to check over-indebtedness would also result in improvement of creditworthiness of the borrowers, bringing down the credit-risk premium which should translate into lower interest rates.

NOTES

NOTES

About MFIN

Microfinance Industry 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 36 states and union territories, spanning 729 districts to ensure that credit reaches the low-income households.

The impact of Microfinance on borrowers can be gauged by the fact that over 70 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

mfin powering responsible finance

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