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Shifting trends in the microfinance ecosystem

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Foreword

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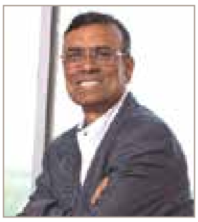

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The microfinance industry, especially in India, has been a strong enabler in including the financially underserved and unserved in the formal financial ecosystem. The positive role played by this sector is evident from the awarding of universal banking and small finance bank licenses to the top MFIs in India. Over the past few years, the microfinance industry has seen strong growth with the introduction of institutional provisions like revision of RBI guidelines for NBFC-MFI operations, launch of MUDRA bank and small bank licenses. MFIs have consistently added value to customers' livelihood through partnerships with various stakeholders like investors, banks, other financial institutions, credit bureaus, NGOs and other emerging agencies. However, the growth has also been accompanied by challenges such as higher cost of funds, increase in risks due to geographical concentration, increase in cash carrying costs, unavailability of quality technology solutions, rise in cases of fraud and high churn in human capital employed by these institutions.

To maintain growth and reduce costs while overcoming the challenges, MFIs will have to develop a holistic strategy based on several external and internal factors. Externally, MFIs need to address customer requirements, navigate lenders and investors, build effective partnerships with financial and non-financial institutions for sales, and cross-sell and adhere to guidelines issued by regulators and self-regulatory organisations. On the internal front, operations, technology, risk management and human capital together play an integral role in all activities undertaken by MFIs. Institutes need to innovate their operations and develop products to add value to their customers' economic and social conditions while concentrating on unpenetrated markets in India. Technology needs to be leveraged not just to reduce costs but also to increase geographical reach and, thus, the top line. MFIs also need to adopt HRM best practices, thereby providing tools to help individuals remain highly motivated and contribute to their success.

This report tries to identify the shifting trends in the microfinance ecosystem and discuss techniques which can be adopted by MFIs to succeed in the dynamic environment.

Message from PwC

The microfinance industry has traversed a long path in its growth from being barely an additional mode of raising finances for the rural and semi-urban people in India to becoming a direct means of helping them run their day-to-day business. The industry has been a saviour to millions of people in the remote areas of the country and provided them with a glimmer of hope by empowering them with the means to fulfil their dreams. The sector has now started to attract significant domestic as well as foreign investments over the last few years.

This transformational journey from being a purely not-for-profit entity to a significant investment opportunity has been carved out over a series of highs and lows in the industry and changing regulatory practices. The government and regulators have played a part in keeping the mission of financial inclusion at the highest level, which has further boosted the industry growth. The granting of SFB licenses to large MFIs has given a further incentive to financial inclusion. MFIs now need to reassess their current positioning in the market and remodel themselves in order to stay relevant in terms of providing capital. The entire microfinance ecosystem needs to undergo a change right from aligning with relevant channel partners to re-engineering internal processes, addressing risk and regulatory challenges, and optimising the costs of utilising technology and the power of digital to reach out to the financially unbanked and underbanked.

This paradigm shift in the functioning of the microfinance industry will not only help to strengthen the foundations of growth and sustainability but also to give the industry the thrust it requires to take a quantum leap.

The report we present to you talks about some of the trends and challenges that the microfinance industry faces today and also about a strategy that industry needs to remodel itself in order to stay ahead of competition.

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1 *MFIs: An introduction*

Global GDP growth is set to remain steady at 3% for the fifth consecutive year in 2016.[1] However, the low-income population often gets neglected in this growth story. Around 2 billion people lack access to even a savings account and more than 200 million micro, small and medium-sized enterprises (MSME) lack access to adequate financing; these numbers highlight the extent of financial exclusion.[2] Banks seem to have taken note of these realities and are adopting new technologies and leveraging partners to tap the underserved. This has resulted in increased financial inclusion in rural areas, especially among those who are opening bank accounts for the first time. Still, despite the best efforts of banks, many are yet to be included in the formal financial system through access to formal credit.

Microfinance institutions (MFIs) have taken centre stage in addressing the gap. The microfinance sector has seen a paradigm shift in the last few decades. It is currently very complex and involves scores of MFIs and microfinance investment vehicles, which is a staggering shift from its inception as microcredit offered to customers with zero banking access across the world. Thus, the sector is in a position to address the financial inclusion agenda.

Global growth trajectory of MFIs

It is difficult to encapsulate the global microfinance market in a single phrase as the challenges and opportunities vary substantially across regions. For instance, while markets in Latin America and Central Asia have driven industry growth in the past, they are expected to slow down in 2016. Prospects are, however, observed to be stronger for markets in Asia Pacific and Sub-Saharan Africa, as they are expected to register above-average rates of growth in 2016. A series of macroeconomic events which have posed a threat to the general economy could be responsible for this slowdown. In some countries, this has led to weaker currencies and lower remittance inflows, which has in turn impacted local borrowers' demand for funds and repayment capacity. The fall in remittances has been particularly difficult on micro-entrepreneurs as it has curtailed an important source of supplementary income. From a structural perspective, however, the potential for growth across most microfinance markets is vast as financial exclusion remains widespread.

In spite of the rate of financial inclusion progressing rapidly in the last decade, a large gap is observed between developing and developed countries. For instance, while the ratio of private credit to GDP in countries with large microfinance markets (developing and underdeveloped countries) hovers at around 40%, in developed countries, this indicator lies well above 100%.[3] This gap implies that the microfinance sector still has plenty of room to 'catch up', allowing it to outpace growth levels in more mature segments of the economy for the foreseeable future. However, this is not true of all microfinance markets. In some countries—for instance, Peru—financial markets have expanded at an impressive pace and access to basic financial services is now relatively extensive. While these microfinance markets are expected to register lower growth rates going forward, it does not imply that the demand for financial services is now fully met. There has been a meteoric shift in the demand for innovative and advanced segments such as MSME financing or leasing, which remain thoroughly underserved.

Financial inclusion in India

While financial inclusion has always been at the forefront in India, the last decade has seen a strategic shift from credit focus to a more holistic approach such as opening bank accounts or getting access to add-on products like insurance. This new approach has initiated a change in the core financial architecture of India's economy. Since bank account creation is an integral part of the agenda, banks are more directly involved, with the regulations mandating that deposit taking be retained as their exclusive domain.

Today, India has a diversified banking sector that addresses the needs of various sectors. However, traditionally, banks have not focused much on the economically backward class. The high risks and costs pertaining to small transactions, nominal profitability and absence of physical collateral in most cases discourage financial institutions from focusing on the economically marginalised population.

To address this market failure and to provide financial services to low-income clients, MFIs have emerged, although their role in the financial ecosystem has undergone a shift from the time that they commenced operations. The pioneer MFIs operated as non-profit, non-governmental organisations with a strong social focus. They developed new credit techniques; instead of requiring collateral, they reduced risk through group guarantees, appraisals of household cash flow and small initial loans to test clients. Today, however, MFIs have changed from non-government organisations to nonbanking finance companies (NBFCs), and there has been a modification in how they raise finance. Once primarily donor-led, MFIs are now increasingly funded by banks and private and shareholder equity.

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1 Adams, T. (2016). Banks are driving financial inclusion. Livemint. Retrieved from http://www.livemint.com/Opinion/qOHHqoPRYbjkywASoqeQ0K/Banks-are-driving-financial-inclusion.html (accessed on 09/11/2016)

2 World Bank. (2016). Financial inclusion – Overview. Retrieved from http://www.worldbank.org/en/topic/financialinclusion/overview (accessed on 09/11/2016)

3 responsAbility (2016). Microfinance market outlook: Developments, forecasts, trends. Retrieved from http://sanabelnet-work.org/UserFiles/file/Conf%20publications/rA_Microfinance%20Outlook_2016.pdf

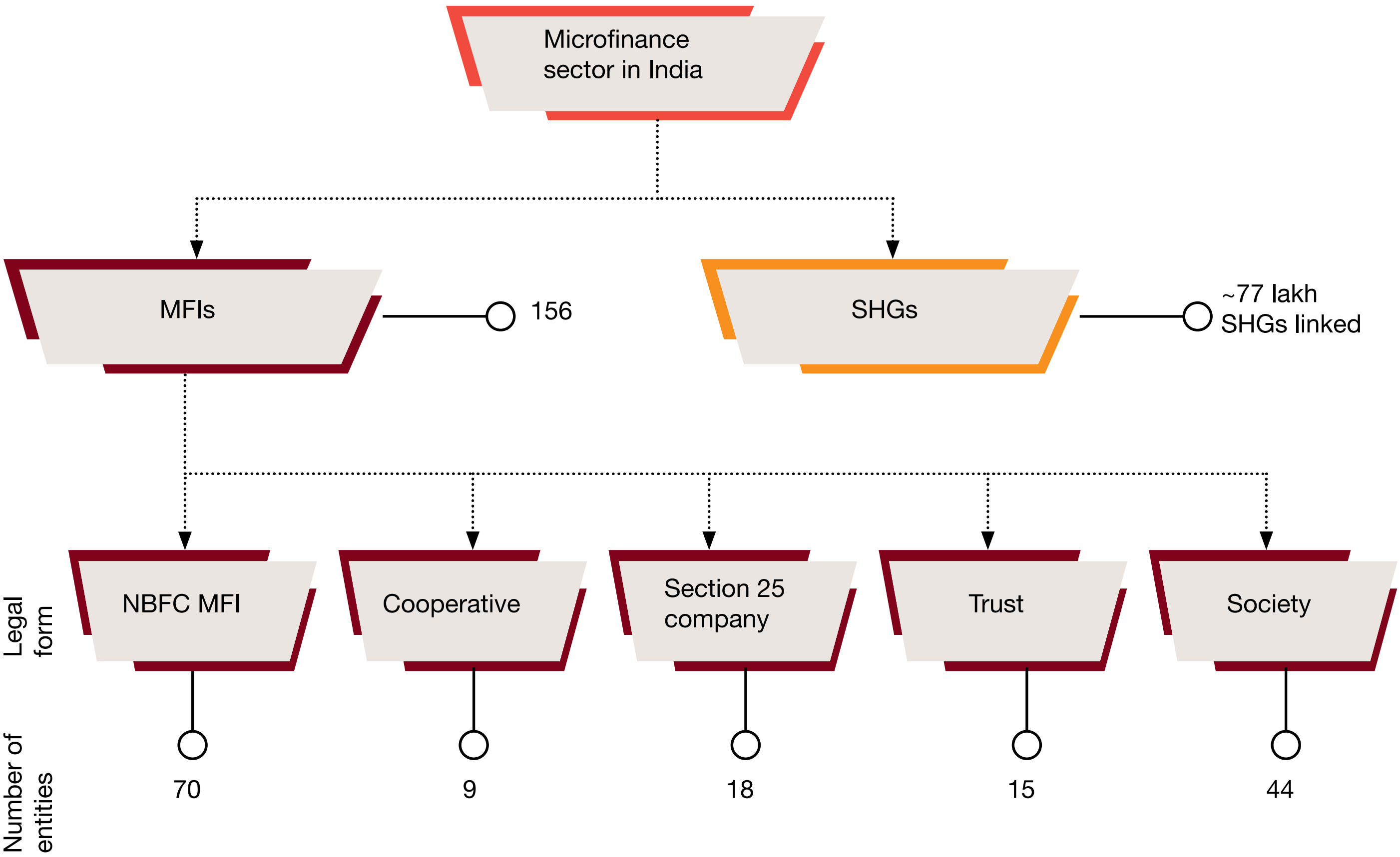
The government has undertaken a number of initiatives to enhance the credit lines for individuals from lower income groups. In 2015, Micro Units Development & Refinance Agency Limited (MUDRA) and Pradhan Mantri MUDRA Yojana (PMMY) were launched, which guided the banks to lend to microenterprises, with a total target of 1,22,188 crore INR credit disbursal. The Union Cabinet also approved the creation of a credit guarantee fund for MUDRA loans, which is expected to provide guarantee to loans worth more than 1 lakh crore INR to microenterprises.[4]

Evolution of MFIs

MFIs emerged in India in the late 1980s. Their business proliferated in the 1990s under the open economy regime. In India, microfinance operates through two main channels:

- MFIs
- Self-help groups (SHGs)[5]

Figure 1: Microfinance sector in India



Source: Sa-Dhan, MFIN, ICRA, CRISIL, CARE, India Ratings, PwC analysis

4 Sa-Dhan. (2016). The Bharat Microfinance Report 2016. Retrieved from http://indiamicrofinance.com/2017-2016-bharat-report.html

5 SHGs refer to groups of 10–15 women coming together to form a semi-formal community-based institution to meet their common financial and social needs.

In recent years, MFIs in India have evolved into a vibrant segment of the financial sector, exhibiting a variety of business models. Non-adherence to rules and irresponsible actions of some MFIs had brought a setback to the sector, albeit temporarily. But the sector regained traction from 2012–13 onwards and is showing consistent growth. A spate of policy actions to strengthen the regulation of the microfinance sector, including RBI guidelines on NBFC-MFIs and inclusion of loans to MFIs by banks under the priority sector, benefited the sector considerably. Lending by MFIs has exhibited robust growth with a compound annual growth rate (CAGR) of approximately 34% in loans disbursed—namely an increase from 22,635 INR crore in 2012–13 to 72,345 INR in 2015–16.[6]

The gross loan outstanding in the microfinance sector has seen a CAGR of 15%, with the loans outstanding increasing from 55,600 crore INR in FY 2010–11 to 1,00,600 crore INR in FY 2014–16.[7] Currently, the regulated microfinance market in India has over 30 million clients, served by more than 70 regulated institutions, with a network of 10,553 branches and 80,097 employees across 32 states and union territories.[8] MFI activity is set to grow, especially because only 8% of adults have loans from formal financial institutions.[9]

In autumn 2015, RBI also granted specific banking licenses to 11 payment banks and 10 small finance banks. This again put the spotlight on the microfinance sector as 8 of the 10 newly licensed small finance banks are MFIs. The entry of MFIs in the small finance bank segment is a revolutionary step since these entities are very familiar with the nuances of banking with poor borrowers. Thus far, MFIs were not allowed to accept deposits and engaged in extending credit after sourcing money from commercial banks. Now, by getting access to banking, these entities can tap public deposits, which will significantly lower their cost of borrowing and enable them to bring down their rate of interest on loans from the current 24–26% to a level decided by the market competition—possibly lower double-digit figures. This is likely to increase the cost pressures on existing MFIs and force them to tap new geographies and markets for growth and sustenance.

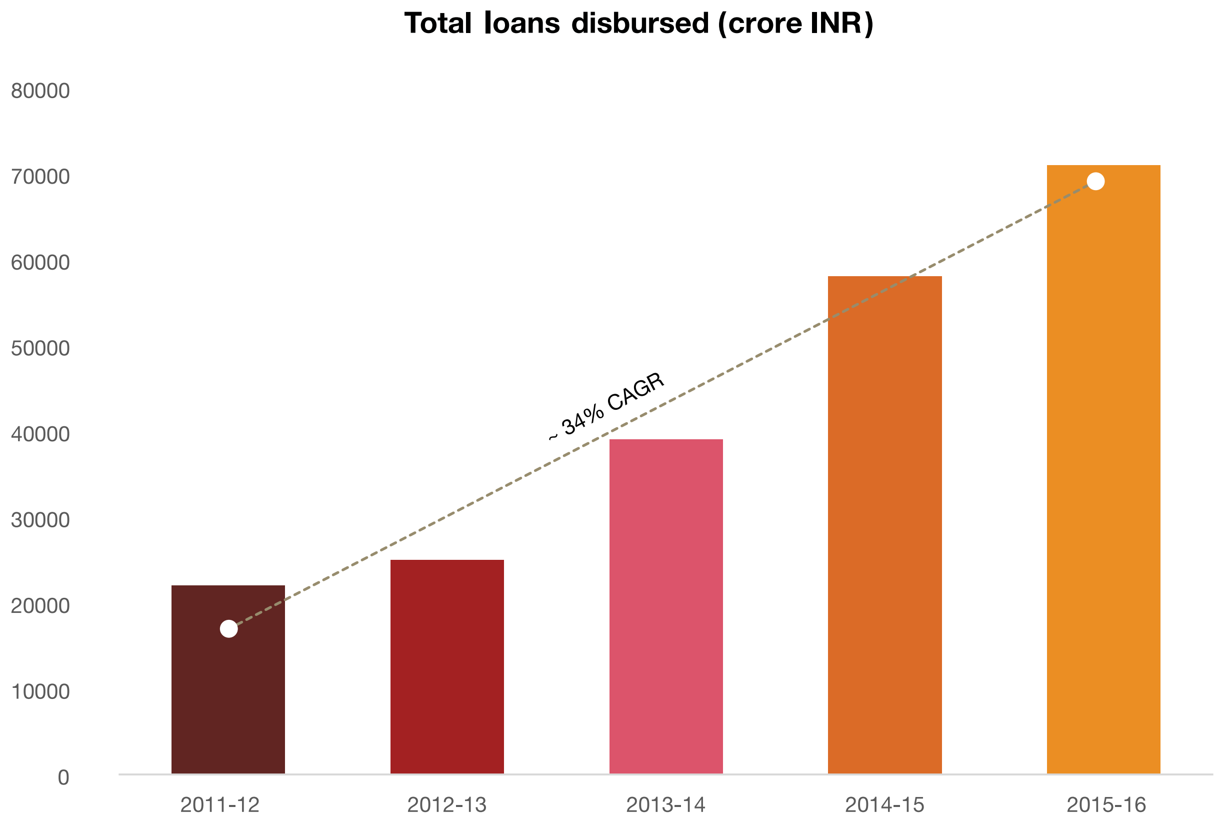
6 Sa-Dhan. (2016). *The Bharat Microfinance Report 2016*. Retrieved from http://indiamicrofinance.com/2017-2016-bharat-report.html

7 Sa-Dhan, MFIN, ICRA, CRISIL, CARE, India Ratings, PwC analysis

8 ADBI. (2016). *The status of financial inclusion, regulation, and education in India*. Retrieved from https://www.adb.org/publications/status-financial-inclusion-regulation-and-education-india

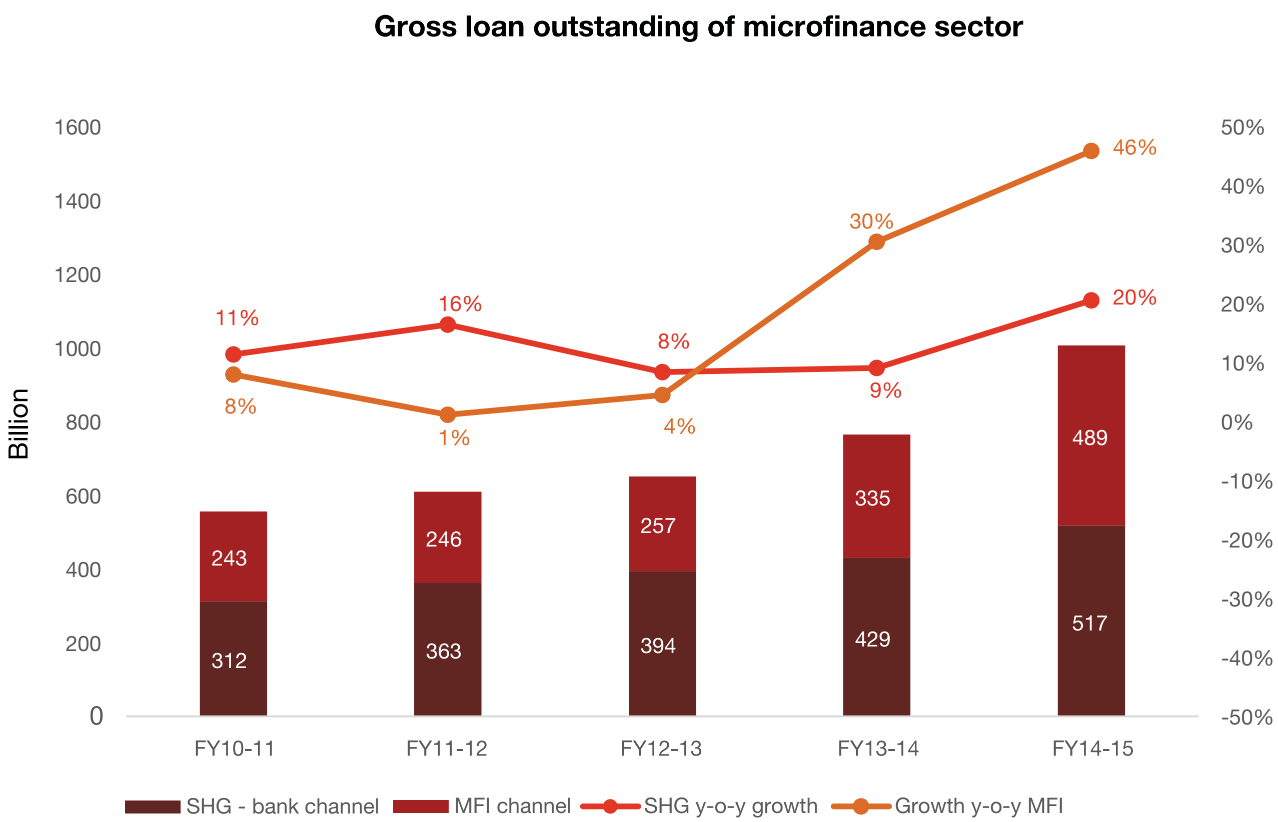
9 Ibid.

Figure 2: MFI loan disbursement



Source: The Bharat Microfinance Report 2016, PwC analysis

Figure 3: Gross loan outstanding of microfinance sector



Source: Sa-Dhan, MFIN, ICRA, CRISIL, CARE, India Ratings, PwC analysis

The latest trends

Marginal markets

Extreme poverty, negligible economic activity and temporary emergency situations like wars and disasters are still preventing certain sections of the population from gaining access to formal financial channels. There is a need for initiatives to bring such groups on the radar of financial institutions by providing them with basic services that allow them to enter into a more decent and stable stage of life.

Clients will determine the supply

A major and newer challenge is closing the quality gap: the difference between the services offered and the services best suited to the clients' needs. For both providers and clients, there is a continued learning process and the foundation for product diversification is laid in their interaction.

New providers on the scene

Parallel to product diversification, the role of 'non-traditional' microfinance providers is on the rise. Inspired by the profitability of the MF market and putting in practice the belief that the poor are an interesting market, the presence of banks as providers of microfinance is scaling up. They are integrating microfinance into their mainstream commercial retail lending, which is evident from the acquisition of certain NBFC-MFIs by large scheduled commercial banks in India. The presence of other providers is also increasing: Supermarket chains, insurance companies and others have discovered the market of the poor and are applying different strategies of downscaling.

Enhanced use of technology

Technology is the biggest enabler when it comes to making financial services available in the remotest part of the country. With improving technological infrastructure (the Internet, cell phone networks), customers are making transactions without any physical contact with an MF credit officer. As a result, transaction costs have fallen and distance from a physical outlet is no longer a reason for exclusion.

Key challenges to the existing ecosystem

The gross loan outstanding in the microfinance sector increased to around 1,00,600 crore INR in FY 2014–15 with a CAGR of 15% between FY 11–15.[10] In spite of this robust growth, MFIs, particularly mid- and small-size ones, are faced with a number of internal and external challenges which may impede growth and impact their operational efficiencies. Large MFIs are immune to most of the challenges faced by other industry players due to access to capital at a lower cost, use of technology and robust risk management framework. Some of the challenges faced by MFIs are highlighted below.

10 Sa-Dhan, MFIN, ICRA, CRISIL, CARE, India Ratings, PwC analysis

Funding

Equity funding is the biggest catalyst for horizontal growth (i.e. growth across geographies and borrowers), while debt funding acts as catalyst for vertical growth (i.e. growth in loans outstanding per customer). Large and mid-sized organisations, particularly NBFC-MFIs, have seen a comfortable situation in terms of equity and debt funding over the past few years; however, the situation for smaller MFIs, societies and section 25 companies is not the same. Lack of funding channels and the differential in cost of funds between large/medium and small-sized MFIs are the major factors impeding the growth of these small organisations. While the average cost of funds was 13.44% for large MFIs, it was 15.67% for medium-sized MFIs and 14.48% for small-sized MFIs.[11] Large MFIs have converted to scheduled commercial bank and small finance banks, accompanied by substantial equity investments over the past couple of years. This is likely to have drained out equity investments and other MFIs would have to increase their reliance on debt to meet the increasing funding requirement, thereby impacting their ability to grow horizontally.

Concentration risk

Geographical concentration increases an MFI's risk to political activism and disasters like floods, draughts, floods, or a combination of these factors. The MFI clientele—financially underserved or unserved—is politically sensitive, thus increasing MFIs' exposure to default and loss given default due to political intervention. MFIs with a focused geographical presence also face a threat from natural calamities like droughts, floods and earthquakes, which impact a customer's payment capabilities. Diversification of portfolio across states and geographies can minimise the concentration risk but increase operational challenges like adherence to 'accepted' state government norms, in addition to RBI guidelines.

11 MFIN. (2016). Micrometer, Issue 18. . Retrieved from http://mfinindia.org/the-micrometer-issue-18-data-as-of-30th-june-2016/

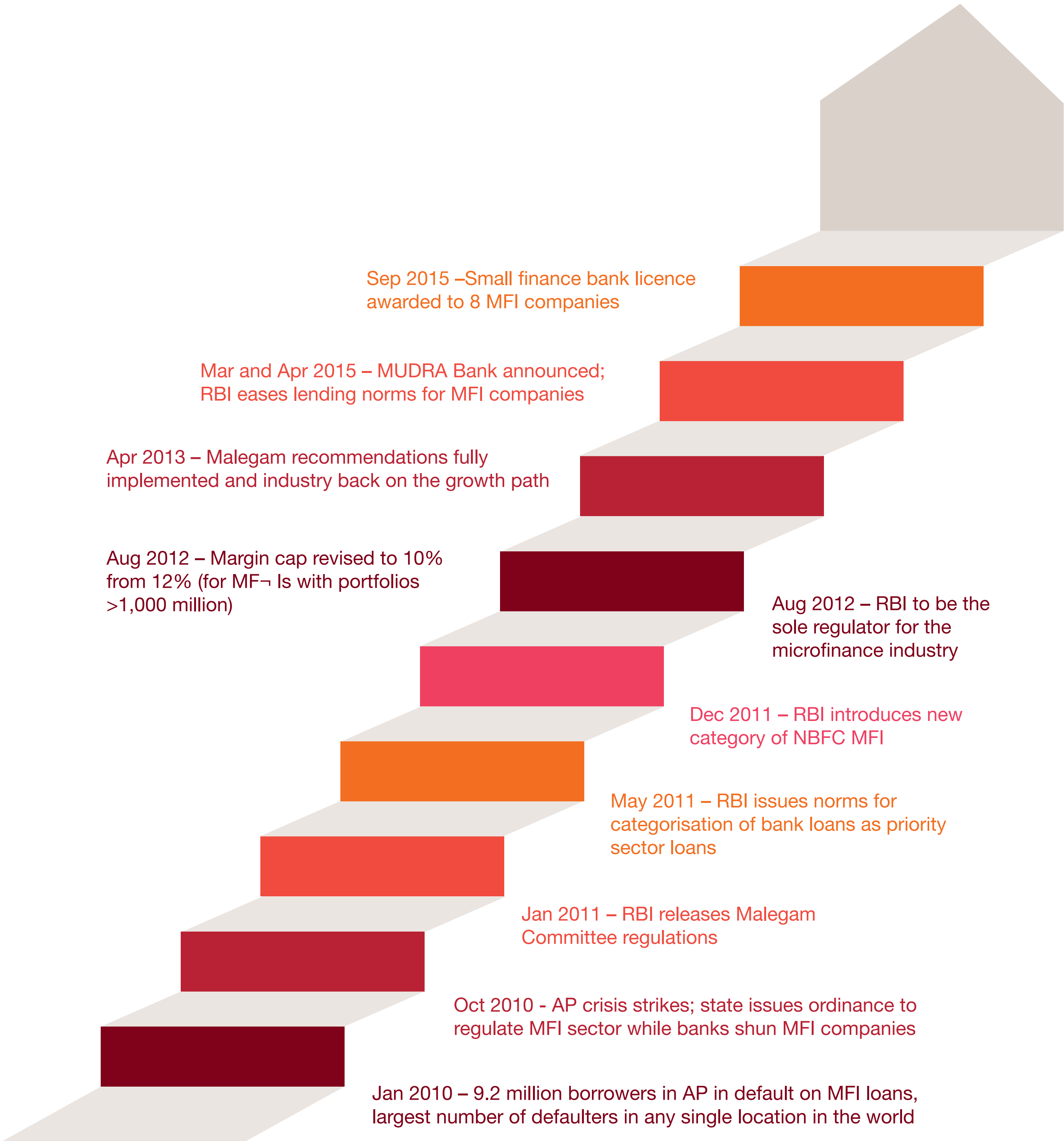
Size definition for MFIs: Large – GLP > 1,000 crore INR, medium – GLP > 100 crore INR and < 1,000 crore INR, small – GLP < 100 crore

Operational inefficiencies

- **Cash transactions:** With most of the customers being from the lower strata of society, the transactions undertaken by MFIs are majorly cash driven. MFIs incur significant a cash-carrying cost as they forgo the interest for assets held in currency along with an insurance premium to safeguard the cash in transit. Frauds or thefts by third parties on cash held by borrowers also have an impact on the customer's ability to pay.
- **Technology:** Use of technology can reduce the operational costs for MFIs substantially; however, these organisations, particularly small and medium-sized MFIs, do not have the required capital to invest in technology. The lack of capital translates into use of low-cost and locally developed solutions which do not have the industry best practices embedded. This further increases the operational challenges, impacts adoption, and leads to an increase in manual intervention in processes, thus impacting both efficiency and cost. Use of local and low-cost technology solutions also has an impact on the credit ratings by ratings agencies, impacting the MFI's ability to raise funds at a lower cost. Further, for MFIs concentrated in rural and semi-rural areas, technology adoption remains a challenge due to infrastructural issues like lack of electricity and broadband connectivity.
- **Fraud:** Lack of an effective risk management framework and controls is a major challenge faced by MFIs. Greater manual intervention in processes due to use of local and low-cost technology reduces the number of systematic controls and automated data collection, increasing the probability of internal fraudulent activities by employees. In addition, MFIs have observed instances of certain borrowers taking advantage of the large loan size and becoming moneylenders, thereby defeating the very objective of curbing illegal moneylending.
- **Human resources:** Poaching of resources from mid- and small-sized MFIs by the larger MFIs is one of the biggest challenges faced by the industry. Due to the access to low-cost capital and funds, coupled with balance sheet size, the larger MFIs can offer enhanced compensation to employees from mid-and small-sized MFIs, increasing attrition at these institutions. Apart from costs incurred in recruitment, MFIs also incur substantial training costs due to the lack of sector-specific training courses in Indian educational institutions. In addition, identifying personnel with specialised and relevant skill sets for different functions within the organisation is a challenge faced by industry players as the sector has been scaling up only recently. While the core values, vision, mission and code of conduct form the basis of organisational culture in MFIs, they are heavily influenced by the senior management of the organisation. Institutionalising this culture through professional HR and operational practices remains an unaddressed challenge.

2 Regulatory landscape for MFIs

Figure 4: Regulatory initiatives post the crisis



The regulatory landscape for MFIs has evolved quite significantly over the past decade. Initially, when doubts were raised about the existence and importance of MFIs in India, Andhra Pradesh (AP) was one of the first states that sought to regulate the microfinance industry. The prime reasons for this were the perceived high interest rates charged, coercive recovery practices and larger exposures taken by MFIs.

Pre-2010

In response to this, the AP government issued an ordinance to regulate the functioning of MFIs. Some of the measures contained in the ordinance are captured below.

Figure 5: MFI regulation post the AP ordinance

Area	Prior to the AP ordinance	Post the AP ordinance
Registration	All non-government organisations and financial institutions were free to operate	Compulsory registration with the district authorities for every district of operation
Interest rates	No specified interest rate structure or caps and no restrictions on fees	Only interest can be charged to customers. Interest rate needs to be informed to customer explicitly. Interest charged cannot be higher than principal.
Executive liability	No framework	Direct liability of CEO for any lapse in operations at all levels (including branches)
Customer origination	No restriction	No member of an SHG can be a member of any other SHG/MFI
Recoveries and collections	Recoveries possible at the doorstep of the borrower	Recoveries possible only at central locations

These regulations, however, did not ease doing business. Instead, they raised operational difficulties and virtually brought MFIs to a halt in the state of AP, the hub of MFIs in India. The risk remained that other states would not follow suit and formulate their own regulations, thereby spoiling the credit culture. But while local politicians at the state level tried to disrupt the MFI business, no ordinances or policies were formed and they continued with the existing model, thus keeping collection rates high outside AP.

2011–2014

The AP crisis led to a sudden drop in collection rates and the MFI industry in India witnessed an all-time low in terms of profitability, net worth and funding from other lending institutions. RBI intervened by appointing a committee under Y. H. Malegam to study the practices of MFIs and came out with a regulatory framework to strengthen the functioning of MFIs and abate the risk of political intervention.

Figure 6: RBI guidelines for MFIs

Area	Guidelines	Issues addressed
Pricing of loans	Spread cap for large MFIs = 10%; Spread cap for small MFIs = 12% Interest rate charged = Cost of funds + 10% or average base rate of five largest commercial banks by assets multiplied by 2.75 times, whichever is lower Pricing in individual loans may exceed 26% provided the maximum variance for individual loans between minimum and maximum interest charged does not exceed 4% Only three components to be included in pricing of loans: i. Processing fees not exceeding 1% of gross loan amount ii. Interest charged iii. Insurance premium	Reduces fear of high interest rates charged Enhances transparency in product design
Multiple borrowings	The borrower at no time can borrow from more than two MFIs Max loan amount 1,00,000 INR (raised from 50,000 INR) Disbursement of 60,000 INR (enhanced from 35,000 INR) in first cycle and 1,00,000 INR (raised from 50,000 INR) in subsequent cycles	Preventing overleveraging of borrowers
Loan characteristics	Loan towards income generation activities > 70% of overall assets No penalty for delayed payments, no security deposit/margin to be taken Borrowers' annual household income not to exceed 1,00,000 INR in rural areas and 1,60,000 INR in non-rural areas Tenure of loan must be greater than or equal to 24 months if the amount borrowed is greater than 30,000 INR. And the borrowers have the right to prepay without penalty Ban on collection of security deposits Detailed loan card to every borrower Loan to be extended without collateral and is repayable in weekly, fortnightly or monthly instalments at borrower's choice	Improved process and efficiencies
Recoveries	Recoveries at residence only if customer fails to appear at the designated place more than twice	Preventing use of coercive tactics for loan recovery
Provisioning	50% of aggregate loan instalments overdue for more than 90 days and less than 180 days. 100% of aggregate loan instalments overdue for 180 days or more Aggregate amount of loans given for income generation should constitute at least 50% of the total loans of MFIs	Ensuring prudency in lending by the institution
Funding Access	MFI loans continue to qualify as priority sector lending (PSL)	Liquidity support from banks
Credit Information	All NBFCs must be members of all Credit information bureaus (CIBs) and onboard data to all the bureaus as mandated by RBI	Industry discipline

Regulatory perspectives on MFIs have come full circle, with both governments and regulators realising the key role of the MFI industry in furthering financial inclusion. In 2008, the Rangarajan Committee had issued a set of recommendations for strengthening the role of the microfinance sector in the process of financial inclusion. These pertained both to SHGs and to MFIs. This committee recognised and envisioned a larger role for for-profit MFIs in financial inclusion. For instance, it proposed some concrete measures to bring them under regulation as a separate category of non-banking companies. Once regulated, they could also be recognised as business correspondents (BCs) of banks for providing savings, remittance services and microinsurance. In 2011, Raghuram Rajan and the Malegam Committee both agreed that a separate category should be created for NBFC-MFIs. There has been some conflict with regard to recognising them under the category of banking institutions as there are possible risks of mingling or commingling of deposits from the loan funds of the company collected by the banks. The Mor Committee argued that 'with technology enabling intra-day clearing of funds it is not obvious that this (i.e., co-mingling risk) is anymore a risk factors that cannot be managed by a bank'.[12] The regulations should further allow non-deposit-NBFC (ND-NBFC) permits to banking corporations for national banks where deposits can be taken and credit can be offered from their own balance sheet or in risk-sharing partnerships with other banks.

The permission for banks to be BCs came as another enabling provision from RBI in 2014. The sector as a whole received a shot in the arm when the central bank officially accorded the status of industry self-regulatory organisation (SRO) to the Microfinance Institutions Network (MFIN). As an SRO, MFIN is authorised to carry out the key functions of surveillance, grievance redressal, dispute resolution, investigations, data collection, and training and knowledge development for the regulated microfinance sector. However, the regulation of not–for-profit MFIs is still to be crystallised.

The industry bodies of MFIs, MFIN and Sa-Dhan are now recognised as self-regulated organisations by the central bank. Self-regulated organisations are required to formulate a code of conduct and have an effective grievance redress system for borrowers and a dispute resolution structure for members. In the current framework, MFIs can report to Sa-Dhan or MFIN, which is not necessarily good for regulatory efficiency. However, it is not yet clear if they will report to RBI or the newly created MUDRA Bank or to any other microfinance regulator. The passage of the proposed **MFI bill** should bring clarity on many of these points.

RBI has also implemented several measures that are indicative of its intention to help regulated and market-oriented MFIs to bypass some of the limitations and take the next step to becoming banking entities by making use of the available legal options—like setting up new private sector banks or converting to small bank/payments banks. Even while continuing as NBFCs, they could link up with banks as their BCs. Thus, the regulatory framework intends to be supportive to all of the categories of MFIs depending upon their size and aspiration.

The regulatory supervision has eased doing business overall, but a lot of issues still need to be overcome in this industry. The stringent regulations have heightened the barriers to entry into this industry. The newer/smaller players have more risk associated with them as they have smaller balance sheets, which cause them to potentially wipe out their net worth in case of any unforeseen losses. Furthermore, the cap on lending rates will also cause companies to contain their cost of funds. But, in order to contain their losses, the banks will still need to charge higher interest rates, hence causing small players to have limited bargaining power.

The regulatory supervision will cause all types of MFIs to invest a lot more in technology in order to decrease dependence on manpower. This will increase the cost of operations and with the capped lending rates, earnings can reduce till economies of scale flow in. In addition to this, loss given default in the MFI industry is also high and poses a higher risk; hence, the investments and credit underwriting standards will play an important role in determining profitably and sustainability.

In general, the regulations have impacted the industry positively and had an uplifting effect on the industry. The changes the RBI has made have allowed the growth of MFIs by allowing them to re-strategise and increase their loan portfolios by going after a wider audience. In general, these new regulations promise a better tomorrow as there has been a surge in capital infusion into this sector in recent times.

12 *NABARD (2014). Inclusive Finance India Report 2014. Retrieved from https://www.nabard.org/publication/IFIR2014.pdf*

A case study on changes made to Kenya's regulatory environment

Kenya has successfully managed to transform its NGO MFIs into deposit-taking microfinance institutions. Based on the Microfinance Act, 2006, the related regulations aimed at regulating deposit-taking MFIs came into effect in May 2008. This opened a window of opportunity for institutions such as Faulu Kenya and Kenya Women Finance Trust to become deposit takers. The Financial Sector Deepening (FSD Kenya) supported both institutions in their transformation. A study identified the following critical success factors behind the turnaround strategy of MFIs in Kenya: affordable capital, public confidence, skilled staff, branch network, competent management, composition of board expertise, use of modern technology, use of diversified and innovative products that meet dynamic needs of the clients, and, most importantly, implementation of new regulations and processes. There are quite a few lessons that can be learnt from this transformation:

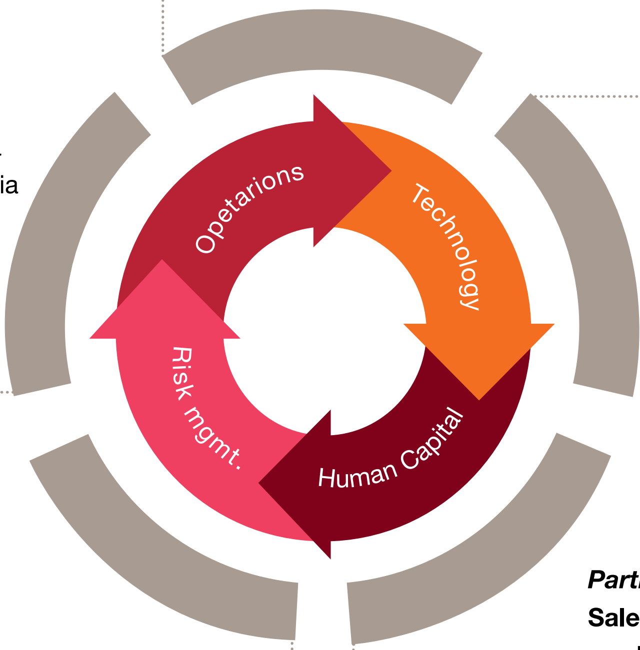
Area	Lessons learnt
Organisational structure	i. Once an MFI becomes a deposit-taking institution, related positions which did not exist before, such as liability manager, treasury manager and branch manager, need to be created. ii. At the governance level, the regulations are likely to require the appointment of board committees and, therefore, new directors will probably also have to be introduced to meet the regulatory requirements. iii. The choice of new investors must be made carefully and introduced gradually. This will minimise the risk of mission drift and avoid pressures for profit maximisation before the transformation is completely accepted, both internally and externally.
Structural transformation	i. Setting up a 'bank' branch has proven to be time consuming and very costly. ii. The Central Bank of Kenya's requirements for a deposit-taking MFI branch infrastructure are similar to those for commercial banks. The set-up of a branch network is therefore extremely expensive. iii. In reality, implementing branchless banking seems to be more challenging than had been envisaged.
Regulatory environment	i. The current requirements, especially with regard to branch security and prudential ratios, are not adapted to the microfinance business in Kenya. To encourage other organisations which are performing well to transform, a review of actual risks for deposit-taking MFIs would be necessary to lower some of the requirements and therefore costs. ii. The challenge to transformation lies not in meeting the regulatory capital requirements but in realising the related costs to comply with the non-capital requirements. Key among these is investment in information technology/management information systems and the establishment of a deposit-taking infrastructure.

3 Strategy for the evolving ecosystem

Figure 7: Microfinance ecosystem

Customers
- Rural
- Semi-urban
- Urban
- Individual
- Joint lending groups/SHGs

Regulators
- Government of India
- Reserve Bank of India
- NABARD
- SIDBI
- Mudra Bank



Lenders and investors
- Private equity
- Banks
- Asset management (debt funds)
- Insurance
- Development institutions
- Crowdfunding

Industry associations
- AMFI – WB
- Sa-Dhan
- MFIN

Partners

Sales
- Business correspondents
- Sales agents
- Common service centres

Cross-sell
- Banks, including small finance banks and payments banks
- Insurance
- Asset management
- Equipment manufacturers

Industry associations/SRO

Source: PwC analysis

To understand the nuances of the MFI industry and identify all the points of interest in the shifting microfinance ecosystem, it is essential to divide the entire landscape in the form of relevant stakeholders.

1. External stakeholders

    a. Customers: We divide MFI customers using two parameters based on geographies and size of customers. It is observed that a majority of MFI customers lie in the rural and semi-urban geographical segment of the country. Customer distribution has primarily been by means of SHGs in India, but more and more customers are now approaching MFIs as individuals who have the relevant earning potential to run businesses as individual entities. Hence, MFIs are increasingly keen to help out such customers.

    b. Lenders and investors: If we observe the typical lender and investor categories for an MFI, we find that a large majority of the MFI investors are private equity players and banks. Other financial institutions such as insurance and asset management companies specifically investing in debt funds also contribute to the funding. A latest entry in the investor segment is the concept of crowdfunding, where a significant proportion of capital is raised by a large number of people investing money into the project through non-traditional modes of investment such as websites and social media. This pooled capital is correspondingly utilised by MFIs.

    c. Partners: An MFI needs to reach out to customers more often than the customers reach out to them. Hence, it requires more eyes and ears in the geographical expanse and hence arises the need for a strong partner ecosystem that not only helps sales but also pushes for cross-sell options to reach out to the unbanked population.

    d. Industry associations: Most MFIs align themselves to industry associations such as Sa-Dhan and MFIN. This is done to build proximity to other like-minded MFIs, to take advantage of the size of the group, to understand the challenges and issues on the ground level, and come to a common consensus. RBI has accredited these two industry associations as self-regulatory organisations (SROs). The membership of NBFC-MFIs in these SROs is seen by customers and funding institutions as being a confidence-building measure, and removal from membership is perceived to have an adverse impact on the reputation of the NBFC-MFIs.

    e. Regulators: MFIs are essentially regulated by the RBI and SIDBI and also follow regulatory norms as announced from time to time by the Government of India, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), which bolstered financial inclusion and increased awareness of financial institutions in unbanked areas.

2. Internal stakeholders

    a. Operations: Successfully running an MFI involves the efficient internal operations of the organisation which can be accomplished by strong governance and an effective policy set-up.

    b. Risk management: An MFI runs on the ease with which the organisation identifies credible customers and is able to disburse the amount to him/her. This identification and credit underwriting are of utmost importance as they help to curb bad loans and centre around a steady source of income.

    c. Technology: It is observed that the functioning of the business can be transformed by the way in which technology is used in the MFI. The very presence of an advanced system, digital presence in the media, increased reach through mobiles, etc., can push revenue options and keep internal costs to a minimum.

    d. Human capital: One of the most critical aspects of this entire business is human capital as it forms the basis of increasing the business. The employees of the organisation can help improve presence and run an MFI successfully.

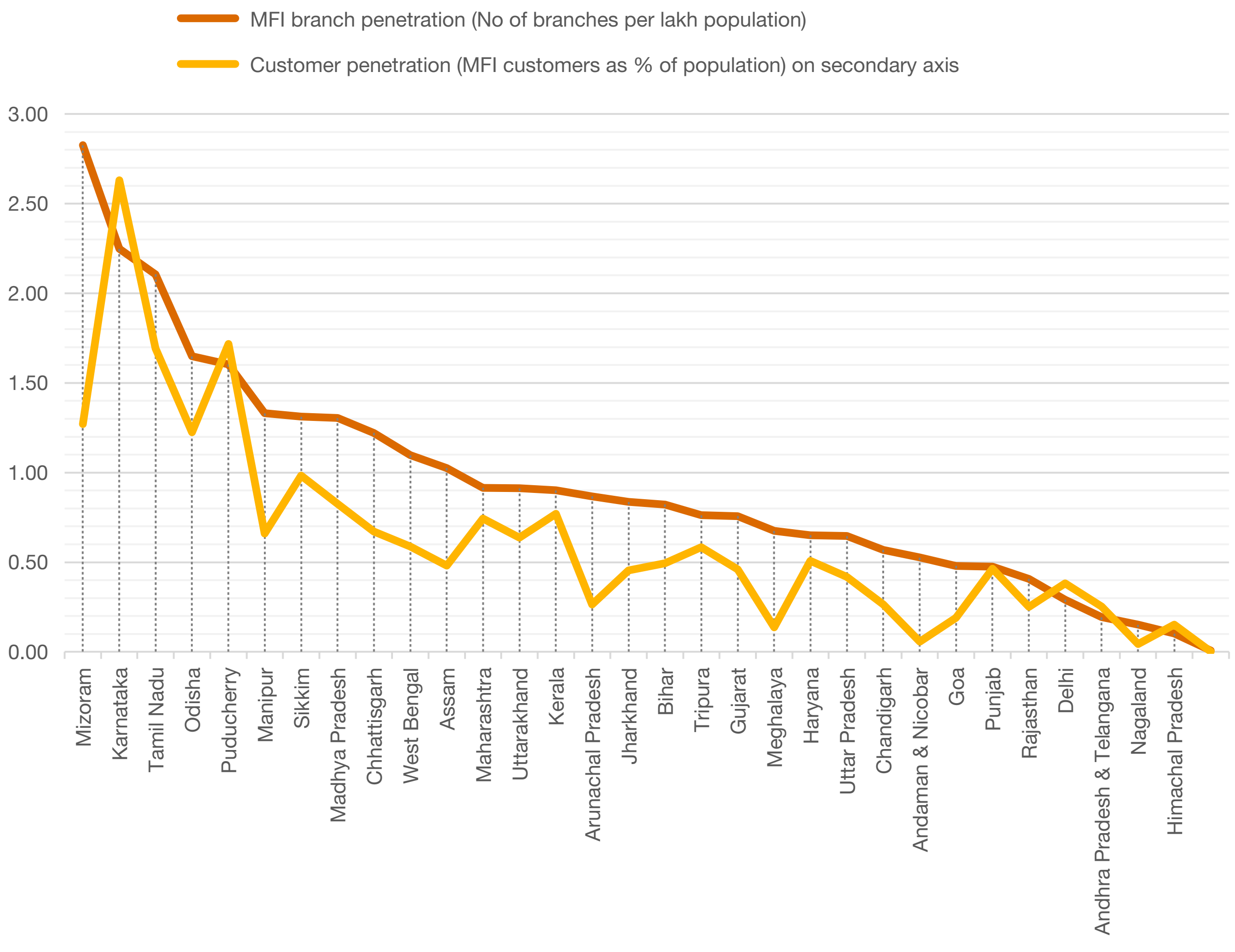
Operations innovation

In the entire ecosystem definition, it can be observed that an MFI has little or no control over external stakeholders like customers, regulators, industry associations/SROs and partners. The dynamics of the ecosystem will be defined mainly by variations in these stakeholders. An MFI has the control to modify or create variations in the internal stakeholders which are operations, technology, risk management and human capital. These internal stakeholders will help steer the ship for an MFI to stand out from the crowd and provide a source of revenue to its customers.

While defining the internal operations strategy for an MFI, we discuss a few of the components of the strategy:

Market strategy

Figure 8: State-wise microfinance penetration in India



Source: Sa-Dhan. (2016). The Bharat Microfinance Report 2016. Retrieved from http://indiamicrofinance.com/2017-2016-bharat-report.html, Census India 2011, PwC analysis

The above graph shows a significant presence of MFIs in the states of Mizoram, Karnataka, Tamil Nadu and Odisha. Also states such as Karnataka, and Odisha have marked higher customer penetration, meaning these markets are highly penetrated. For an MFI to increase its presence, it is essential to concentrate on the next set of states which are observed to have lesser MFI and customer penetration like Arunachal Pradesh, Jharkhand, Meghalaya and Tripura. These states will have a higher requirement of funds and higher capability in the market to pay and increased credibility. It is essential for MFIs to identify the right market segment to target and also identify the suitable set of partners in the form of banks, BCs, sales agents, customer service centres or other MFIs from other states.

Product and distribution innovation

Another strategy that MFIs need to adopt is the concept of value finance. Value finance can be briefly explained as identifying the value chain for a business and helping not only raise capital for itself but also tracing stakeholders in the value chain that maybe equally in need of capital. The underwriting for the business would need to be considered in total and hence the evaluation of the entire stream of the business would not only assist in capital requirements of the intended business but also every component of the chain. The MFI can help in a term loan or working capital management for the smaller vendors in the chain, helping to bolster the revenue of these entities.

From the point of view of the product mix for a typical customer of an MFI, it is clear that each customer will have his/her own set of requirements for the business. These requirements need to be evaluated well to provide tailored products to the customer. One such proposed model could be to not only provide for the capital requirements of the MFI but also help the MFI reach out to its prospective customer and help him/her negotiate the best possible price for the product/service for accelerated growth of both the customer and the MFI. This will provide forward and backward penetration of the MFI in the lines of business of the customers, i.e. the value chain of the customer and their prospective customers.

Another step in providing direction to customers is setting up of consultation desks in the MFIs to discuss their grievances and issues. The consulting team can assess the situation and provide relevant guidance to the customer and help salvage the crisis they may have entered into.

Product and service innovation: A case study on delivering customer needs by going beyond traditional financial products[13]

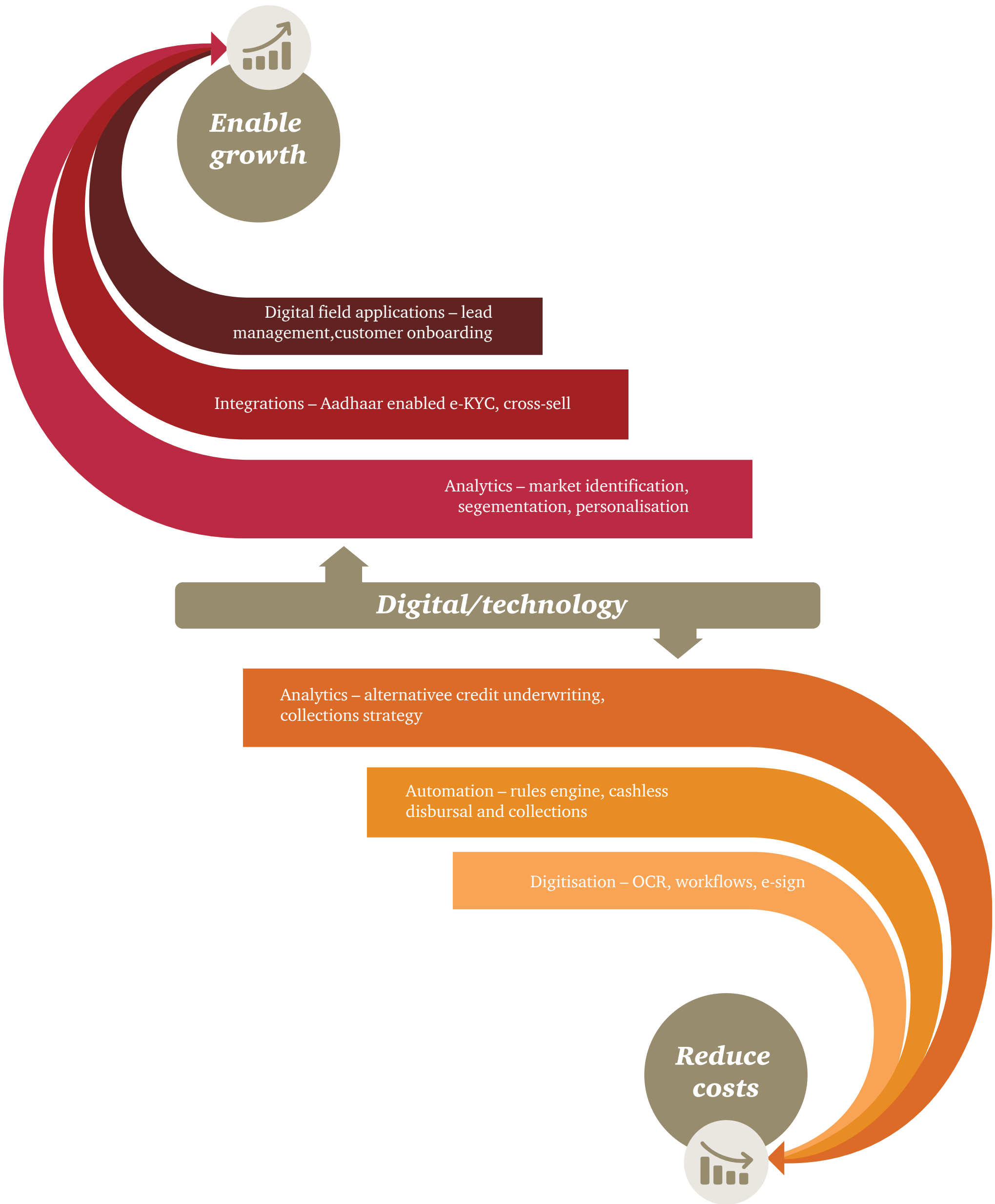
Central and north Cameroon were granted access to solar energy through microfinance by self-managed village savings and credit associations networks as a means to meet customer needs by providing products and services beyond the traditional savings and loan products. With over 46% of the overall population and 83% of the rural population without access to electricity, the networks identified that this was as a major obstacle to the improvement of local economic conditions in Cameroon. The rural population without a connection with national grid depended on potentially hazardous kerosene lamps and flashlights for lighting. There were also generators that were used to run electric appliances but were known to be expensive to operate as compared to electrified households. Though solar solutions offered electricity in rural areas, access to these solutions was difficult. Lack of presence of solar solution providers in rural areas, lack of information about solution reliability and lack of financing solutions were the major barriers in harnessing solar energy to electrify the rural areas. The networks, with the help of another African microfinance group, adopted tailored solar solutions through microfinance. The networks established partnership with solar solution manufacturers and distributors, defined clear roles and responsibilities for different partners (i.e. manufacturers, distributers and microfinance institutions), developed and adapted financial products based on a risk management approach and repayment capacity of clients, designed tools and procedures to strengthen skills of MFIs and educate customers to manage technical aspects of solar solutions, and developed marketing strategy and tools to enable sales. Two financial products were developed and launched to cater to home energy and micro and small enterprise needs. To compensate for the lack of solar technicians in rural areas, an entrepreneurship network located in villages was set up to offer delivery, installation and after-sales services with a profitable business model. It was identified that facilitating synergies between customer needs and the world of microfinance can deliver additional value to customers, furthering opportunity for impact investing. Strengthening the product supply chain along with targeted support to microfinance institutions (through networks) to develop financial products was critical in the success of this initiative.

13 Pamiga. (2014). Energy and microfinance: The cases of A3C and UCCGN in Cameroon. Retrieved from https://www.microfinancegateway.org/sites/default/files/publication_files/pamiga_cameroun_eng_web.pdf

Technology and digital innovation

Fintech solutions are disrupting the operating model employed by financial services organisations. Use of these technologies and digital solutions can help MFIs not only to achieve their growth objectives through increased outreach and agility but also to reduce high administrative expenses. Initiatives by the Government of India like 'Broadband for All,' which aims at covering 2,50,000 villages through the National Optical Fibre Network (NOFN) by December 2016,[14] and the ever-expanding 4G and 3G network courtesy Indian telecom companies will ensure Internet connectivity even in remote areas, which is a critical necessity for use of digital and technology solutions. Earlier, the high investment required in technology was a barrier towards its adoption in MFIs but with the pay-per-use and cloud model, the capital intensive technology is within the reach of organisations of varied sizes. Use of alternative credit mechanisms can assist MFIs in effective risk management and decreasing the need for these provisions considerably. Sales force transformation and use of analytics and technological integrations with other partners can have a considerable impact on the top line of MFIs, while end-to-end digitisation, customer self-service solutions and use of alternative credit scoring mechanism can enhance the MFIs' bottom line. The savings due to the use of technology and digital solutions can be further passed on to the customers to achieve the envisaged social impact.

Figure 9: Digital/technology solutions to enable growth and reduce costs



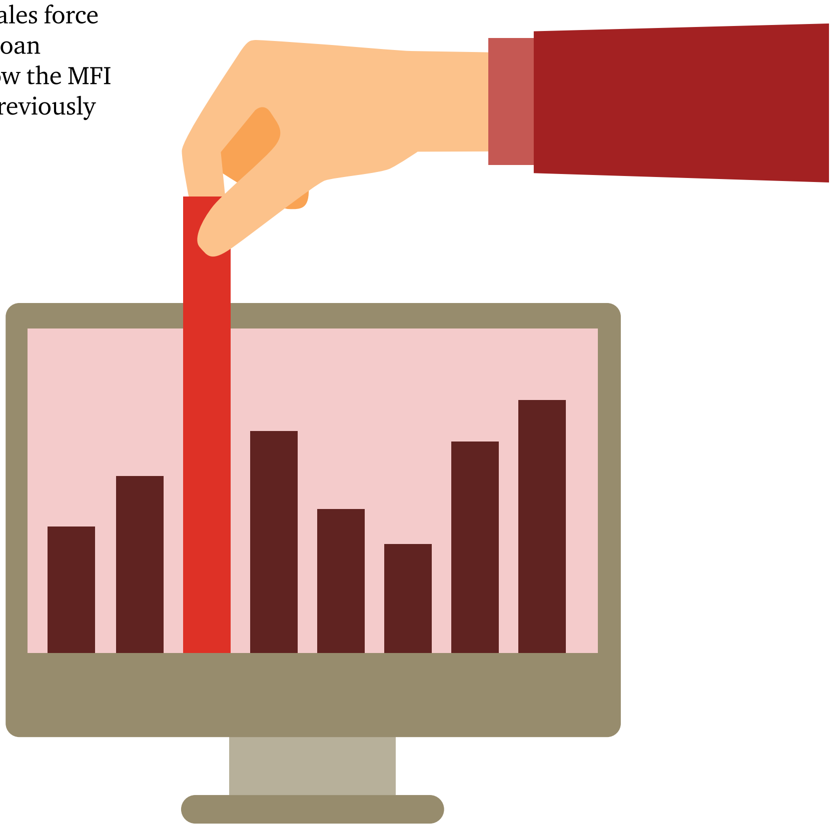
Source: PwC analysis

14 *Ministry of Electronics and Information Technology, Government of India. Digital India. Retrieved from http://digitalindia.gov.in/content/broadband-highways*

Enable growth

Technology and digital solutions can help MFIs in achieving their growth objective by helping them in increasing their geographical outreach and product offerings, generating better consumer insights and enhancing sales force productivity. Most financial services institutions have started implementing or have already implemented digital field applications to onboard customers. However, MFIs should not only actively implement digital field applications (or mobility solutions) for customer onboarding, but also consider a disruptive change in their sales ecosystem by implementing support applications like lead management, Aadhaar and credit bureau integrations, integrations with financial services partners for cross-sell and use of analytics to generate consumer insights. The following technologies can be leveraged by MFIs to meet the growth objectives:

- **Lead activity management:** Traditionally, the sales forces of MFIs used personal diaries and notes to manage leads. Digitising the lead management activities through a mobility solution can enable sales force productivity and efficiency. A lead activity management module, coupled with a single view of customers (for existing customers), can greatly enhance the sales staff ability to not only identify target customers but to also sell efficiently. This will not only help sales staff in efficient lead management but could also assist them in filtering customers at the sales stage itself, rather than the underwriting stage.
- **Customer on-boarding and e-KYC:** Mobility-enabled customer onboarding forms, data pre-population through Aadhaar/PAN integration, credit report generation through credit bureaus and deduplication checks are some of the features which can greatly impact sales force productivity and decrease turnaround time for loan applications. Mobility onboarding solutions allow the MFI to service customers in geographies that were previously considered unreachable and unserviceable. Analytics-based customer insights for product recommendations and cross-selling generated on the 'digital' onboarding platform can help MFIs increase their top line significantly.
- **Partner integrations:** Technology integrations need to be built between the applications of MFI's applications and those of their partners to enable the sales staff to undertake real time cross-sell and increase the top line. These integrations can be used to deliver the latest product information to the sales staff, while also enabling MFIs to store additional customer information that can generate more insights. Technology integrations will also give MFIs the ability to provide customers basic services on behalf of partners for better customer engagement.
- **Analytics insights:** Analytics can be used by MFIs at a macro and micro level to effectively identify areas of growth, undertake marketing activities and retain existing customers while preventing churn. At the macro level, insights generated through geospatial analytics can be used to estimate population in an area, identifying hotspots for strategic placement of staff or branches and identification of growth areas.[15] Analytics studies based on existing customer data can assist MFIs to effectively segment customers and build segment-specific marketing campaigns. At the micro level, customer repayment history and his/her association with partners can provide insights to retain the customer through new products or retain a possible churn. Profitability analytics based on customer lifetime value and share of wallet analytics can also assist MFIs in focusing on customers with a positive net present value (NPV), thereby ensuring positive growth.



15 Gupta, B. (2015). Geospatial analytics: Exploring key uses cases. Analytics India Magazine. Retrieved from http://analyticsindiamag.com/geospatial-analytics-exploring-key-use-cases/

A sample business architecture that MFIs can implement to enable the organisation grow at a faster pace is shown below. While the MFI can consider implementing individual point solutions providing functionalities, the solutions should be tightly coupled and integrated to ensure effective data management, enhance sales staff efficiency and prove a single version of truth.

Figure 10: Business architecture for enabling growth

Channels

Branch | Group entity | Third party | Website/ mobile app | Email | Chat/ SMS | Call centre/ kiosk

Lead activity management

Lead capturing and assignment, appointment scheduling, lead follow-up and reminders, lead status, lead conversion, single customer view

Customer onboarding data entry

Product walk-through, recommendation engine, form filling/details capturing, documents capturing, dedupe check, cross-selling, application tracking

KYC/e-KYC documentation

ID proof documents capturing, real-time verification and pre-filled data (PAN and Aadhaar integration), OCR recognition for data digitisation, credit bureau integration

Application verification/ scrutiny

Automated data flow, workflow management, digitised document verification, segregation of duties, application re-assignment, application status tracking

Funding/payments/ underwriting

Manual/automated underwriting, loan approval/rejection, electronic transfer, loan fund disbursal, cash EMI collection, cash management

Partner integration (cross-sell)

Product information, onboarding data transfer, customer payments, application status tracking, capturing service requests and status tracking

Marketing

- Multichannel campaign
- Campaign management
- Rewards management

Analytics

- Customer segmentation
- Geospatial analytics
- Customer retention and churn

Enablers

- Mobility app
- Learning management
- Access management
- Workflow

Integration

- Third-party systems
- Underwriting system
- Analytics solution/ data Warehouse

Source: PwC analysis

Reduce costs

Out of the total expenses of 8,119 crore INR, as reported by MFIs, the approximate operating expenses were 3,816 crore INR, comprising 47% of the total reported expenses by MFIs (24% personnel expenses and 23% administrative expenses).[16]It was seen that NBFC-MFIs which are more technologically advanced had the lowest operational expenditure ratio (ratio of administrative and salary expenses to average loan outstanding) at 8.5% in 2014–15 when compared to section 8 companies at 9.3%, societies/trusts at 13.6% and co-operatives at 14.4%.[17] It is seen that technology like mobility, workflows, digitisation and automation can play a major role in assisting MFIs in reducing their administrative and personnel costs in the high-volume, low-value business. Loan loss provision (LLP) had increased significantly in 2015–16 with LLP to operating expenses increasing from 3% in 2014–15 to 9% in 2015–16, suggesting deterioration in the quality of outstanding portfolio.[18] Deployment of alternative credit underwriting mechanisms through quantitative and qualitative data can help MFIs effectively manage risks while reducing LLPs. Use of the following technologies can help MFIs reduce costs and increase agility:

- **Digitisation and automation:** Administrative cost, which comprises establishment and operating costs for offices and branches, paper trail, technology and communication expenditure can be comprehensively reduced by use of technology. Use of mobility and digital field applications by sales staff for lead management, customer onboarding and customer servicing will help MFIs collect data in 'digitised' format. The digitised data can be further enriched by using open APIs for Aadhaar, e-KYC and e-sign to reduce costs and increase turnaround. Customer loan applications can be routed through workflows, automatically underwritten using rules engine and disbursed through electronic payment modes to reduce paper trail and administrative resource consumption. End-to-end paperless process can be enabled by issuing loan agreements in a customer's digital locker, which can be accessed via common service centres (CSCs) or other digital channels. Transactions in cash (disbursal and collections) can be permitted through biometric integration at point-of-sale terminals at local shops/CSCs without the requirement of a field staff's presence in the area. From an assisted mode, MFIs also need to make a slow shift towards customer self-service options to log loan and service requests, make e- payments, etc., through smart and feature phones. Adoption of self-service options will help in improving field staff productivity and reducing administrative costs involved in application processing and cash management
- **Use of analytics:** MFIs have traditionally faced challenges in underwriting due to little or no financial history of its prospective customers. While two credit bureaus in India have been collating data from MFIs, credit co-operative societies and self-help groups not furnishing data is a major challenge in relying on reports from these credit bureaus. Use of technology for alternative credit decisioning can help MFIs underwrite credit requests based on information which cannot be traditionally found in bank statements and credit reports. Predictive analytics using a combination of micro variables like financial transaction history, credit reports, call detail records and transaction detail records of telecom footprints, psychometric analysis and utility bill repayment records with macro factors like meteorological reports and geography-specific growth statistics can help MFIs in taking more informed underwriting decisions. Client-specific collections strategies can also be employed using predictive analytics based on the data collected. For example, frequency of a loan officer's visit for collection can be varied based on a customer's risk perception. Use of analytics can help in enhanced risk management and can lead to a decrease in loan loss provisions over a period of time.

Technology: A case study on reducing loan charges through pure online channels and alternative underwriting mechanisms[19]

An online person-to-person microlending website (US-based non-profit organisation) uses pure online channels and alternate underwriting mechanisms to provide loans in eight African countries. Borrowers have to post their project proposal on the website with photos and a life story. Each project can be crowdfunded by anyone willing to lend, after which the funds are released only if the entire project is funded. The philosophy of a pure online model was based on earlier learning of the founder while working as a volunteer with another person-to-person microlending website that employed local loan officers. Even for a zero-interest loan offered by lenders, use of local loan officers and coordination on behalf of the organisation pushed loan average interest rates to as high as 35%. Eliminating local intermediaries makes it possible for the microlending website to offer loans at a cost of just 5%. Credit risk is being controlled by automating underwriting or outsourcing it to borrowers. The website uses analytics to screen suspicious activities before activating the account and disbursing loans. Borrowers with a good repayment record are allowed to invite a limited number of trusted acquaintances to the platform. They are incentivised to invite only reliable borrowers by linking their ability to invite additional borrowers to the repayment history of their current references. New borrowers without a history on the platform are provided with a small test loan to earn the right to raise

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16 Sa-Dhan. (2016). The Bharat Microfinance Report 2016. Retrieved from http://indiamicrofinance.com/2017-2016-bharat-report.html
17 Ibid.
18 Ibid.
19 Allison, I. (2016). How fintech and microfinance remove intermediaries and loan costs. International Business Times. Retrieved from http://www.ibtimes.co.uk/how-fintech-microfinance-remove-intermediaries-loan-costs-1572760

a larger loan at a later date. Borrowers can also get a higher credit limit by making payments to a reserve fund which earns no interest. Lenders are compensated for any default by using the reserve funds. A borrower's repayment history along with comments and feedback rating from previous loans is displayed on the website to enable prospective lenders to evaluate the loan application. Thus, effective use of technology through an alternative credit mechanism, pure online channel and person-to-person funding enables the organisation to provide low-cost loans and undertake high-impact philanthropy with limited funds. While a change in business model to a pure online channel may not be effective, MFIs in India could increase reliance on technology as compared to MFI personnel, thus reducing their operating costs and bringing in efficiencies.

Human capital development

In the course of the last two decades, the MFI industry in India has strengthened its position despite the significant setbacks it received from AP's ban on MFI institutions. Slowly but steadily, there has been a shift of focus from the objective of raising financial resources to the development of the human resources serving this industry.

Traditionally, MFIs did not have a defined HR policy or structure, especially since the size of the organisation was always very small. The last few years have seen an upswing in the size of the organisation and also in the margins generated by MFIs. As a result they are faced with a very basic question: Are our resources aligned to our vision and mission and can they supplement the growth of the firm?

The goal of having a defined human resource system in the organisation is to help the individual employees in the MFI to accomplish their career goals and to work well together. In order to accomplish this goal, human resource management (HRM) must be an integral part of the strategic plans of any MFI and must have the special support of senior management and promoters.

All institutions comprise an interdependent network of individuals. In order for an MFI to be successful, each employee must be productive, efficient and effective, and must work in perfect tandem with each other. Attention to the management of employees can not only enhance their success, but can also encourage the entire team to reach goals beyond what one person can do alone.

All employees, regardless of their level or designation in the MFI, need to align themselves with the same goals:

1. Identify with the MFI's vision, mission and objective.
2. Understand their role and how they can contribute to the mission.
3. Know specifically what is expected of them.
4. Have the capacity, resources and environment which can help them achieve their objectives.
5. Receive encouragement, constructive feedback and opportunities to develop and improve.

The role of HRM is to provide systems and tools that will provide these key elements to help the individuals within the MFI to be highly motivated and successful. When each is successful, the MFI will also be deemed successful.

Factors affecting HRM

The three main factors influencing the HRM of an MFI are:

1

Environment

The external environment in which the MFI operates can heavily influence its HRM. It is essential that the MFI responds to society's needs and challenges such as poverty, high rates of illiteracy, environmental concerns and high crime rates. Other external factors that affect HRM include competition in the microfinance sector and the MFI's interaction with promoters. In addition to dealing with these challenges, the MFI must also understand and comply with the legal requirements and labour laws in the state/country. This impacts the HRM policies and procedures. Many informal rules or expectations within society may also have an influence on the issues the MFI must address in employee management.

2

The MFI

The major aim of HRM is to contribute to the success of the MFI. Therefore, the mission, strategy and goals of the MFI will form the basis of the management's approach to all human resource issues. The structure and functions of HRM should be at a level that is appropriate to the size and needs of the MFI.

3

The employees

Effective HRM will seek success for the MFI by supporting the contribution of each employee. The success of the MFI is highly dependent on the success of each of its employees. Multiple HRM systems and tools are available to support each employee to be productive, thereby contributing to the MFI's success. These three stakeholders (society, the MFI and the employee) are beacons that will help to guide the human resource strategies and day-to-day activities. Not every HRM decision or activity will affect these stakeholders every time or to the same degree. HR managers will often need to find an appropriate balance between the competing interests of these three stakeholders and will learn when and how to compromise appropriately.

Human capital management: A case study of an MFI maintaining trust in the eyes of its employees

The MFI industry faced a crisis situation in India after the government of AP banned MFIs in the state. The major challenges faced from the point of view of human capital management were the gaps between perceived and on-ground practices followed by the various MFIs. It was observed that there was a very poor staff and customer connect existed at this time of need and the crisis situation, together with hostile media reports, threw the employees into a state of disarray. As a result, there was increased insecurity amongst both employees and customers regarding MFIs and their future in India. The political and administrative onslaught weakened customer confidence in MFIs. .All employees had a constant fear of job insecurity which was coupled with a complete standstill of loan disbursements, recovery activities and customer payments, thus paralysing the 'business as usual' functions of the MFIs. This also directly led to delayed salary payments and nil incentives, further demotivating the employees. The media reports, mismanaged staff and competition also fuelled rumours regarding the doom of the industry, specifically state-based MFIs. Also, there was no clear communication from the promoters of the MFIs on the status of the situation or any sort of reassurance regarding employees' job security and MFIs' working status.

During this time, one MFI in India followed a four-fold practice to weather the storm:

1. Higher employee connect: The MFI focused on facilitating direct communication between the employees and promoters through staff meetings on a regular basis. There were also sessions to clear doubts in the minds of people regarding the crisis situation. The promoters and their representatives were instrumental in clearing up the clout in the minds of employees and reassuring them on their status in the organisation and the organisations status in the unstable market.

2. Salaries and benefits – as usual: Supplementing the employee connect programme and the reassurance provided by the promoters, the MFI also ensured that there was no delay in the salary payments and benefit deliveries to the employees. In spite of the fact that there were minimum disbursements and increased customer distrust, the MFI maintained its stance and strengthened the internal employees. Other benefits such as staff loans or advances were provided as usual. Additional incentives such as performance bonus was also given to the employees to create a sense of security.

3. Mission intact: After strengthening the internal structure of the organisation i.e. the employee morale, the organisation decided to focus on the business impact—namely customer sentiments. The organisation engaged in direct communication with customers regarding the current situation and provided for loan disbursements of existing customers. Other customer initiatives such as social development programmes were carried out for prudent cash management.

4. Other initiatives: The organisation also carried out additional initiatives such as awards for service quality champions and also providing employee stock options to the employees.

After the crisis, it was observed that there were dramatic changes in the regulatory and business environment. This led to the need to make fundamental changes in business operations, remaining true to the organisation's mission of providing financial services to the poor. The organisation set out strict guidelines to ensure a smooth transition revive the ecosystem:

1. Buy-in and involvement of key players—staff and customers
2. Clear communication and interaction about the situation
3. Clear identification of benefits to employees and customers

The organisation was recognised as one of the top 50 MFIs in the industry with respect to:

- Credibility: Clear communication from management to employees about the important issues, challenges and changes
- Respect: Providing for training and development of employees to help them grow professionally
- Fairness: Limited or no bureaucracy and backstabbing
- Pride: Sense of accomplishment
- Camaraderie: High sense of hospitality and friendly work atmosphere

About AMFI-WB

AMFI-WB is an institution which endeavors to promote and develop microfinance in the state of West Bengal. Founded as a self-regulatory organization, and registered as a Public Charitable Trust in 2010, AMFI-WB encompasses a community of microfinance organizations that operate in West Bengal.

It was formed to deliver better services to the poor, thereby helping these populations improve their standards of living. AMFI-WB envisions a community of microfinance institutions who are committed to initiating a significant change in the lives of the poor, especially women. AMFI – WB currently caters to around 40 lakh poor women by providing them with financial services, especially micro credit. With a membership of 30 microfinance institutions and Bandhan Bank Ltd., AMFI – WB is currently catering to around 40 lakh poor women by providing them financial services, especially micro credit through approximately 13,000 employees who hail from a lower economic background.

Their primary goals include: encouraging MFIs to maintain healthy relationships with banks, ensuring that MFIs stay on track and focused with the guideline prescribed to them, and mediating between various government officials and other important sector stakeholders. AMFI – WB regularly conducts stakeholder meets at the district level, management development programs for its members, microfinance industry-related seminars & workshops, and member meetings on matters of mutual interest.

Mission

The sole objective of AMFI-WB is to initiate a significant change by empowering the poor, especially women, who are socially disadvantaged and economically exploited. With this objective, AMFI-WB monitors MFIs to ensure that they are compliant with the RBI guidelines and that they adhere to the Codes of Conduct prescribed by the RBI, MFIN, and Sa-Dhan.

It boasts of being a ‘first-of-its-kind’ initiative in the state’s collective fraternity of key MFI players. It is a unique effort, and has been instrumental for the enhancement of income-generating activities among poor women through the help of microfinance services in the state.

Some of the objectives of AMFI – WB are:

- To coordinate with local bodies, NGOs, panchayats, national & international bodies
- To liaise and work in unison with the relevant regulatory authorities
- To make representations to regulatory bodies both at state and national level
- To engage in dialogue & make representations in front of the government and non-government bodies

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