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# WEBINAR ON RBI CONSULTATIVE PAPER ON MICROFINANCE

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**NEED TO ENSURE GENDER AND  
INCLUSIVE GROWTH**



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Friends of Women's World Banking, India

## **1. Introduction:**

The Reserve Bank of India has released a Consultative Document on Regulation of Microfinance as a first step towards creating a comprehensive, uniform regulatory framework applicable to all entities in the Microfinance sector and addressing the inconsistencies in the current regulatory framework. The existing framework regulates the functioning of only the NBFC-MFIs through stringent norms excluding other financial entities which form more than 70% of the MFI sector. The new, all-encompassing framework aims to create a level playing field amongst banks, NBFCs, NBFC-MFIs and other Microfinance institutions, with the regulator suggesting alignment of rules amongst all the lenders. While the intended objective of bringing uniformity in regulations to protect borrowers from over-indebtedness is welcome, the Consultative Document does not specifically address the gender-related aspects of financial exclusion and the role of SHG movement in inclusive growth. For further deliberations on the need to ensure focus on Gender and inclusive growth agenda while formulating any policy framework, on the birth anniversary of our Visionary Leader, Late. Vijayalakshmi Das, who had relentlessly fought for women empowerment, FWFB organized a Webinar bringing together various stakeholders and sector specialists of the Developmental Sector. A platform was provided to share their views on the RBI's Consultative Document on Regulation of Microfinance and facilitate a productive exchange to chart the future course ensuring focus on Gender and Inclusive Growth.

## **2. Opening Remarks:**

This session brought together Mr. S. S. Bhat (CEO, FWFB India), Ms. Jayshree Vyas (Managing Director, SEWA Bank), Prof M S Sriram (IIM, Bangalore), Smt. Usha Thorat (Former Deputy Governor, RBI), Ms Shweta Aprameya, (Founder & CEO, ARTH and Co-Founder, HAPPY), Ms. Praseeda Kunam (CEO, Samhita), Mr. P.V.S. Suryakumar, (DMD, NABARD), Dr. P. Satish (ED, Sa Dhan) and Dr. Deepali Pant Joshi (Former Executive Director of RBI). Each speaker was expected to share their views on the RBI Consultative Document on Microfinance and whether it adequately focuses on the aspects of Gender and Inclusive Finance with provisions to protect the most vulnerable and excluded sections of the society especially underprivileged women

With that objective, Ms. Neha Kansara, (Program Head- Capacity Building, FWFB India) inaugurated the webinar with a warm welcome to all the speakers and the participants. She shared an overview and the key thematic areas of FWFB followed by the housekeeping rules for the smooth running of the webinar.

## **3. Speakers Address:**

**Mr. S. S. Bhat** opened the webinar by setting the context of discussion, with a tribute to Late. Vijayalakshmi Das- "The Mother of Microfinance" and a round of introduction to all the delegates. He first enumerated the achievements of the MFI sector in poverty reduction, women empowerment, assistance to vulnerable groups and improvements in the standard of livings, He further spoke about the Consultative Document on MFI released by RBI recently which has been under discussion in the

MFI sector, media and academic circle churning out suggestions for improvement. He emphasized on the need for gender justice and building an inclusive microfinance ecosystem to protect vulnerable communities especially women. With that view, he welcomed the discussion to deliberate on the ways to achieve the goal of gender equality, promote gender sustainability and build a strong policy ecosystem to protect the interest of low-income women

### **Ms. Jayshree Vyas**

She commenced her speech by emphasizing on how microfinance has always been a women's movement. Women empowerment was facilitated by establishing Self Help Groups with active involvement of women in savings and mutual guarantee. RBI, NABARD and SIDBI had always nurtured/ facilitated the SHG movement in the past. From a policy perspective, transparency and a level-playing field for all beneficiaries is important. She suggested that any new regulation or movement should benefit the women in terms of growth and should continue to empower women and protect them from being marginalized. She requested everyone in the sector for supporting the gender issues more specially the low-income women in microfinance and SHG domain.

### **Prof. M S Sriram**

Prof. M S Sriram spoke at length on his views of the regulatory implications or its lack thereof of the new RBI Consultative Document. According to him, the Malegam report and the first draft regulations have already touched upon several issues related to microfinance on interest rates, multiple lending, income level of the borrowers, the definition of the microfinance etc. While the new guidelines define microfinance by activity, it does not make a fundamental change to the regulatory policy of the Microfinance Sector post Malegam Committee report. The new guidelines are silent on Cooperative Societies and Self Help Groups also. As per him, the Consultative Document could have also brought in more clarity with a framework on how to address violations of the MFI guidelines instead of relying solely on Self-Regulatory Organizations or SROs for monitoring and compliance. Unlike the RBI which regulates the entire Indian Banking & Financial system, effectiveness of SROs may be limited to its member organizations and since most of the new banks have not been members of the SRO framework in the past, it may not have a say in their ways of working and regulatory aspects. The norms stipulated by the regulator in all its guidelines to financial institutions addresses the need to protect their clients who are underprivileged and already heavily indebted. Thus, the current guidelines should also ideally focus on a customer protection and education perspective than an implementation perspective. Prof M S Sriram concludes by indicating that since Microfinance is usually spoken in the same context as women empowerment, it is assumed that the focus on gender inclusion continues, but the new guidelines need to have better clarity on whether the RBI classified small borrower accounts, weaker section advances etc currently under purview of priority sector lending of banks now would be classified under the Microfinance paradigm as per the new guidelines.

## **Smt. Usha Thorat**

Smt Usha Thorat emphasized on the need for a regulatory framework to ensure financial stability of an economy be it to ensure safe and sound financial institutions and also from a macro perspective of the overall systemic stability mitigating risks. Regulations are essential to conduct fair and transparent business and transactions with financial integrity

She addressed that regulation of financial inclusion became a global objective after the recent global crisis As the microfinance activity gained prominence in the financial sector, some of which morphed into small finance banks, and with larger banks taking up microfinance activities as part of their lending portfolio, it became increasingly imperative for RBI to define a regulatory framework for the microfinance activity as a whole cutting across all institutions, This aspect in addition to over-borrowing or irresponsible lending which had created major issues in the past and the led to the formation of the Malegam Committee who brought in their recommendation. According to Smt. Usha Thorat further efforts are being made by the Regulator to better structure the Microfinance sector and the new guidelines stipulated in the RBI Consultative Document is a welcome move in the right direction. As the matter of concern for the regulatory body that are into regulating the institution, irresponsible borrowing, and lending in abundance of money available etc. all such issues prompted to regulate the guidelines. To ensure responsible lending and borrowing, there is an increasing need to educate the beneficiaries on finance to prevent over debt, especially during the current post pandemic scenario where income levels have fallen significantly.

A major issue highlighted by Smt Thorat was lack of availability of accurate credit information of individual borrowers in the SHGs. It is essential to have this information to assess the overall indebtedness of the household and take informed decision on lending. In this context, it is important that the Credit Information Bureau keeps records of loan defaults of SHGs and their individual members, but it should be recorded in such a way that if an individual borrower defaults, it should not adversely affect the ability of the group to secure loans from financial institution.

She stressed on women empowerment with a greater focus on women inclusive financing systems. Accessibility to finance is a key aspect to ensure women's participation in the economy which has been impacted in the recent decade. According to her, the recent statistics on women's participation in the labour force is very concerning. The Female Labour Force Participation Rate (FLFPR) has fallen from 30% in 1990 to 20.8% in 2019. While the female drop-out rate from labour force in rural areas is much higher than urban areas, the urban FLFPR has stagnated over the years. In rural India, women's participation in work force fell from 49.4 in 2004-05 to 24.6 in 2017-18. . **A deeper study needs to be conducted to evaluate the reason for women withdrawing from the work-force, be it cultural barriers or commercialization and mechanization of agricultural activities displacing the jobs of women in rural India or greater contribution of the services sector in urban areas.** Smt. Thorat concludes by stating that an affirmative action should be taken by the government, regulator and other stakeholders to frame a policy not just restricted to microfinance but an overall concerted effort to include women in the financial sector with the regulator stepping up to the issues of gender sensitivity limiting women's access to finance. This coupled with innovative marketing strategies and use of

technology can open multiple doors of opportunity for women to undertake income generation activities.

Formal institutions should come up with out of the box thoughts to support women entrepreneurs in every possible way such as technology adoption, enabling women to upscale themselves.

### **Ms. Shweta Aprameya**

Shweta Aprameya graced her thoughts on micro enterprises which currently employs 63 million people out of which 15-16 million are women-owned individual enterprises. In the context of RBI consultative paper, she shared her view that some of the regulations such as the fair practice code for the customers, responsible lending are welcome.

She emphasized on technology playing a critical role in the segment in the coming days. In order to create a level playing field and gender responsive innovation, there is an increasing need for more flexible credit in terms of tenure, ticket size and continuous handholding support on running the micro-enterprise through continuous up skilling of the women entrepreneurs. Unfortunately such an aspect is not covered in the RBI's consultative paper. A much deeper engagement with women-led micro and nano enterprises is the need of the hour to bring in much greater impact.

In this endeavor, technology can play a vital role in identifying such businesses in line with RBI's position on undertaking the right assessment to ensure the right loan product is provided to the beneficiary. In order to facilitate access to credit, Ms Shweta's organization ARTH, undertakes extensive data collection and universe mapping to have a view of the different micro enterprises, the kind of cash flows they have etc. Data collection efforts should be undertaken on a larger scale to identify the women led enterprises, create a repository of their cash flows and assess their need for credit. **According to Ms. Shweta, cash flow-based lending can significantly change the paradigm of the micro lending ecosystem. She also emphasized the need to make customers aware of the features of the loan product so that they can make informed choices.** Loan utilization is another key area which needs to be focused to avoid over indebtedness. Technology can be leveraged to capture accurate information such as income of the household as a whole at the loan origination stage itself which can significantly improve how credit is offered to the beneficiaries. **Regular up skilling efforts can enhance the ability of women led businesses to improve their overall quality of products and services.**

Ms Shweta concluded her discourse by stressing the need for start-up capital- through CSR funds, revolving grants etc to help women jumpstart their businesses, earmarking some portion of the MSME funds of funds for women-led enterprises and to club credit linkages with insurance as a risk mitigating strategy. She also mentioned on the need of micro equity for the first generation women entrepreneurs.

### **Ms. Praseeda Kunam**

Ms Praseeda Kunam shared some of her practical and pragmatic views on women empowerment. According to her 100 percent credit support alone to women would not address the gender issues or economic empowerment and it could only create an impact if measured and monitored properly. Each

and every step taken towards the women empowerment should focus on how it will benefit and impact the borrowers.

She also enlightened the panel on the views of the Late Vijay Lakshmi Das on the importance of assessing the impact of any initiative be it technology or sustainable practices on the intended beneficiaries. FWWB led by Smt Vijayalakshmi Das was a pioneer in being the first lender to several nascent institutions. The sector needs such innovations and innovative mechanisms in addressing the credit needs of new and smaller enterprises. **Designing and implementing gender-sensitive capacity building programmes was another key intervention point which needs to be replicated by all for creating enabling eco-systems for women to participate in the economy.**

Ms Praseeda Kunam, emphasized the need for creating networks of women at the institutional level and enhancing the visibility of women in the sector. With regards to the RBI's Consultative Document, Ms Kunam raised a specific concern on the quantum of loan restricted by the income criteria of INR.125,000/- which reduces the eligible amount to a way lesser amount than what the women borrowers are currently availing. Thus, more clarity is required on accessing enhanced loan amounts through the financial institutions coming under the purview of the new guidelines of RBI. The mechanisms on non-compliance and monitoring aspects need to be further detailed out in the guidelines. While non-profits such as Societies, Trusts etc. have played a very crucial role in ensuring financial inclusion for the under-served, as they do not come under the purview of RBI's MFI framework, are unable to access information from Credit Information Bureau etc. **It is hence important that this segment of non-profits is guided by a regulatory framework to help them enhance their program impact.** Concluding her thoughts, Ms Kunam stressed on the need to study the gender segregated data to assess the actual impact of loans in improving the lives of women and believes that better awareness and gender sensitivity can help design and implement highly impactful programs.

#### **Mr. P. V. S. Suryakumar**

He commenced this speech by sharing the pleasant experience about his interactions with Late. Vijayalakshmi Das and remembered her as a very caring and warm person.

Further, he shared his thoughts on the RBI document, that it basically focuses on how institutions need to conduct themselves. He shared the generic concept of microfinance which is focused on SHG, women, group mechanism and capacity building. In his view, the data of the MFIs for the past few years is concerning and as the matter of fact there are large number of SHGs across the country while the loan outstanding data against them is much lesser. When the data from across the states is scrutinized, it highlights two fundamental things -

- Eastern and Southern part of India cover the maximum number of SHGs, and maximum number of groups which are credit linked. This is primarily due to the interest and drive from the state governments.

- In the North and North Eastern states, there are less number of SHG while 25% of the groups are credit linked which mean that the state government have not been emphasizing on this adequately.

Hence, the question arises that what could be the way forward to provide access to finance and handholding to women? As a country, India is very vast and there is no clear model which can be adopted. He concluded by sharing the need to work on a hybrid model between MFIs and SHGs which could provide maximum benefit and help address the above concerns. Further, he also suggested that organisations like FWWB and SKDRDP can anchor with the banks for implementing Microfinance and SHG programs to have a better impact on the community.

### **Dr. Deepali Pant Joshi**

She started by paying homage to Late Vijayalakshmi Das and shared that she always remembered her for her laughter, warmth and vital presence during their several professional meetings and interactions and also for her insistence to join SaDhan, the decision which she truly cherishes today.

She shared that there have been several players in the sector like NBFCs, Payment banks, etc leading to arbitrage opportunities and bombardment of loans. Hence, now we are moving from the lenders perspective to the borrower's perspectives and the regulations shall be applicable to all entities.

She shared comparison on certain parameters as: the repayment flexibility, while the Malegaon committee said there should be flexibility of repayment, frequency was only decided by NBFC MFIs while now, and there will be flexible repayments across all regulated entities. Also, there was a ceiling on loans, INR 75000 for 1<sup>st</sup> cycle and INR 125,000 for subsequent cycles which may be removed further.

With the current proposition, we will be looking at total household indebtedness, interest and principal and the repayment. While there were end use restrictions too now there are no end use restrictions and no pricing cap. There is no prepayment penalty and the cost structures are simplified. Earlier the number of lenders was restricted to 2 NBFC MFIs while now there is no restriction in the number of lenders. Hence, there is relaxation on a number of important areas.

She further shared her views on various other point:

There is a need to revise the NSSO definition on the income levels keeping in view the current inflation. The definition of household also becomes very crucial and needs clarity.

Further, going to the definition of micro finance, she added that definition needs to be applicable everywhere across the sector. Two necessary lines are Microfinance is a process which enables poor women to work their way out of poverty and build assets.

The other matrix highlighted by everyone is the matrix for estimation of household income and that needs to be defined clearly. On interest rates, there is a low interest rate elasticity in the sector. The cost

of credit will create a moral hazard of multiple lending and leading to indebtedness of households which are not linked to the income of the households. Hence estimation of household income is a problem.

She concluded by sharing that our focus is on ending poverty, protecting the planet and looking for prosperity for all. While a level playing field is what RBI is aiming at for all regulated entities, the concerns on indebtedness remains.

#### **4. Way Forward:**

- Dr. P. Satish acknowledged Late. Vijayalakshmi Das's contribution to the sector and also to SaDhan. He further summarized the webinar discussions:
- The discussions in the webinar do not confine only to the consultative document and there is a need to work on the overall financial access for women in terms of microfinance or SHGs and the entire formal and informal financial system should be accessible by women on equal footing with men.
- The falling levels of women's employment is a matter of concern and requires broader focus and attention.
- There is also a concern on the role and participation of women in running the institutions, the percentage of women employees is around 12% and is falling currently.
- The RBI document is silent on SHG and cooperatives and it should have focused on the same. The small and not for profit institutions have a key role to play hence the document should address them.
- There has to be a greater mention of the role of women and as practitioners, we shall require to ensure that the credit is passed on and utilized by the women.
- Assessment of household incomes, indebtedness shall be crucial and tools for this needs to be developed.
- There is a need to emphasis on the role of SROs and which needs to be represented to RBI.
- Patient capital for new institutions is required in the sector.
- Encouraging SHG and JLG women borrowers to become entrepreneurs, handholding them and provide them required financial support shall be crucial.

Mr. Nilanjan Chaudhary devoted his thanks to all the speakers and the participants on behalf of FWWB team. He shared his thoughts that the webinar has created a road map to FWWBs future workings also and the team would be crystalizing the ideas to support women with more accessibility to it best possible extent.

#### **5. Suggestions/Inputs:**

##### **Ms. Girija Srinivasan**

She thanked all the speakers and shared that this is a great moment to celebrate Late. Vijayalakshmi Das's life, the values she stood for, the passion and care with which she addressed the core concerns on microfinance and gender sensitive financial services. With regards to the points highlighted during the webinar, she requested Mr. P.V. S. Suryakumar to look into it from policy and key initiative

perspective. Though 30 years have passed since the SHG movement was grounded still the micro enterprise loans / individual loans for women is not coming through and women still have to struggle to avail a decent amount of loan to support her enterprise.

She requested everyone, that in memory of Late. Vijayalakshmi Das and the work of FWWB on ensuring that the entrepreneurial dreams of women are accompanied by adequate financial services, we need to develop some mechanism. Two things that stand out are to work with the banks which has a rich credit history within the SHG eco system and to utilize this towards providing comfort to the banks and to fund the women with adequate quantum , flexibility, etc. She requested Mr. P.V. S. Suryakumar to pilot this on immediate basis so that graduation of women from group loan to a rightful enterprise loan could happen.

Also, micro equity and patient capital mechanism could play a crucial role and could provide women long term capital available for their enterprises. Expecting that sole Bank loans may spur enterprise promotion may not work and hence there is a need to think about innovative instruments and mechanisms to ensure that there is adequate capital supplied for women owned enterprises and FWWB shall be happy to pilot such initiatives.

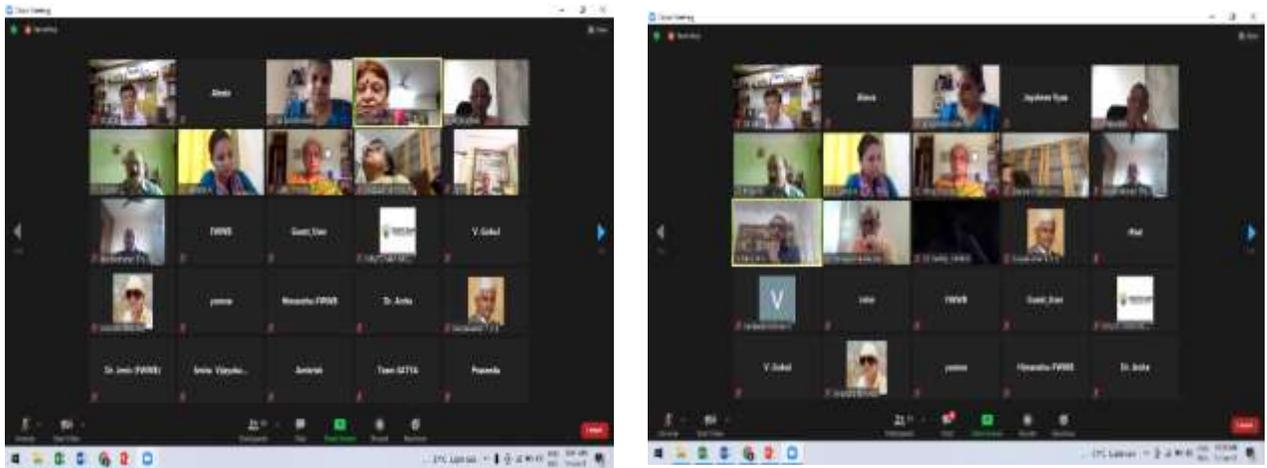
Mr. Brij Mohan shared that some instruments need to be thought of to support new enterprises. Viji had created a strong image for FWWB and Ananya and one needs to capture that space. Some research on impact, research on appropriate methodology could be useful for FWWB’s brand.

During the Webinar, few participants shared their suggestions/inputs that were discussed during the webinar as below:

<b>Participants</b>	<b>Suggestions/ Inputs</b>
Amit Arora	<ul style="list-style-type: none"> <li>• Credit bureau is still not tracking member level default as banks do not feed that information</li> </ul>
Sumitra K	<ul style="list-style-type: none"> <li>• SHG individual level information is not being reported to Credit bureaus</li> </ul>
Saibal Paul	<ul style="list-style-type: none"> <li>• Sa-Dhan after long effort could bring notification from RBI for uploading individual SHG member data on CIBs though bank, but it is in dismal condition</li> </ul>
ANIRUDHA MIRIKAR	<ul style="list-style-type: none"> <li>• The data with CIBs (Crif and Equifax) is also not shared with CIBIL and vice versa. If it happens, it will be more suitable to evaluate the credit worthiness.</li> </ul>
Girija Srinivasan	<ul style="list-style-type: none"> <li>• Graduation of SHG women to individual loans is not happening, NABARD needs to investigate this</li> <li>• Micro equity is needed for first time entrepreneurs, and we are still a long way for loan size needed for a decent livelihood</li> </ul>
Medha Dubhashi	<ul style="list-style-type: none"> <li>• Pandemic has forced women out from labor</li> </ul>
Nilima Bandhavgarh	<ul style="list-style-type: none"> <li>• Women owned activities may be reducing because of some mindset issues recently developing, and maybe that is why they have become invisible despite access</li> </ul>
CS Reddy	<ul style="list-style-type: none"> <li>• With access to financial services for women through MFIs &amp; SHGs, their working hours have become longer and they are playing more diverse roles increasing their work burden. It is really a problem with the data that we have in India. Like NFHS for Health &amp; Nutrition, we need such national studies for women empowerment &amp; inclusive approaches to improve the quality of life of women and their status in the family.</li> </ul>

	<ul style="list-style-type: none"> <li>• Microfinance resulting in increasing the burden of women and staying away from asserting for their rights</li> <li>• APMAS would be delighted to join hands with FWWB to take up high quality research on role of women in various aspects of the agriculture value chain development and how women leadership can be promoted. How to promote women participation in the work force or the way we measure women participation in work force</li> </ul>
Nilima Bandhavgarh	<ul style="list-style-type: none"> <li>• Upstream people do not get any right, and we are a horribly gender insensitive natural ecosystem insensitive society</li> <li>• Micro equity idea floated by Vijay Mahajan and social business focus of prof Mohd Yunus- these two ideas need to be amalgamated for dealing this issue better</li> </ul>
Komal Rana	<ul style="list-style-type: none"> <li>• Technology is bringing in a huge revolution at many levels and bringing in access not just for essential service but developing them as entrepreneurs.</li> <li>• Technology in business is very essential and has huge impact but making Technology as the business is extremely powerful.</li> <li>• Access to finance - startup capital, tech inclusion and a strong BCC component can support women micro entrepreneurs</li> </ul>
Sujata Bhat	<ul style="list-style-type: none"> <li>• Cooperative MFIs are not allowed to access credit bureaus so if Regulated Entities also include cooperatives, then these should be included as 'Specified User' in the CICRA by RBI to enable them take membership of credit bureaus.</li> </ul>
Peter Palaniswami	<ul style="list-style-type: none"> <li>• Need to work out affordable and access of finance for micro enterprises run by women.</li> <li>• MFI work is a foundation for credit discipline. But scale up of business is crucial now.</li> </ul>
Avi Jain	<ul style="list-style-type: none"> <li>• Advocacy should become a part and parcel of MFI services with indicative targets to understand its impact.</li> </ul>
Akshaya Sutar	<ul style="list-style-type: none"> <li>• It is focused on the consultative paper to measure the cash flow status of the woman borrowers.</li> </ul>
Rakesh Singh	<ul style="list-style-type: none"> <li>• There is need to strengthen decision making part of women right from her own household to facilitate women to take charge of her own business/enterprises.</li> </ul>
Medha Dubhashi	<ul style="list-style-type: none"> <li>• True SHG is not going forward. Cooperatives in rural areas were doing very well in promoting SHGs.</li> <li>• Women members should graduate to micro entrepreneurs</li> </ul>
Muralidharan THYKAT	<ul style="list-style-type: none"> <li>• I would like to look at the role of SFBs which have mostly emerged out of MFIs. Women do not require only credit but savings as well.</li> </ul>

## 6. Some Snapshots for the Webinar:



## 7. Key Takeaways

FWWB over the years has tirelessly worked towards empowerment and financial inclusion of low income household women. All the deliberations in the webinar, clearly brought out that FWWB should proactively continue to address gender issues more specifically for the low-income household women.

Recognised as a sector builder, FWWB should continue emphasising on creating a meaningful impact on the sector by way of proactively taking up sectorial research/ impact and disseminate the outcomes of the same to the sector through various communication mediums on regular basis.

It should design and implement gender-sensitive capacity building programs so as to create an enabling eco-systems for women to participate in the economy.

With the specific focus on women's livelihood and entrepreneurship, it should continue and enhance its support to women entrepreneurs in every possible way through technology adoption, capacity building and mentorship, debt support so as to help women to upscale their businesses.

FWWB can explore anchoring with the banks/ funding organizations for implementing Microfinance and SHG programs to have a better impact on the community.