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Inclusive finance India

VIRTUAL SUMMIT 2020

In Times of Pandemic
Navigating Uncertainties & Building Resilience

THE SUMMIT REPORT

Inclusive Finance India Group of Advisors

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PREFACE

Access to timely and affordable financial services is critical to drive inclusive development and growth. It opens avenues for low income, excluded families - allowing them to smooth out consumption and enables saving and investment opportunities. Financial inclusion is the bridge between economic opportunity and outcome. It ensures individuals have access to appropriate and affordable financial products and services – transactions, payments, savings, credit, insurance and investments – delivered in a responsible and sustainable manner.

In India, over 383.5 million new bank accounts have been opened in the last five years due to government's policy push to boost account ownership among unbanked adults. There has been an unprecedented progress in reaching out to the excluded sections of society through the bouquet of schemes like PMJDY, PMJJBY, PMSBY, APY. It shows strong political intent and government's will to push financial inclusion as national agenda. The Findex data also states that India has been on the forefront of driving the financial inclusion agenda. With more than 383 million new bank accounts opened, thrust on transition to digital economy, operationalization of the Jan-Dhan- Aadhaar-Mobile trinity etc. the financial inclusion landscape in the country has leap frogged significantly. The policy makers have been emphasizing on financial inclusion to provide formal financial services for the unbanked population and reducing dependence of informal channels. The thrust has been to plug gaps in public subsidies and welfare programmes and JAM trinity convincingly contributed to the cause.

While Government of India has been proactive in introducing various initiatives that have catalysed the pace of financial inclusion, there has been a general disruption in the financial services ecosystem globally. Favourable regulatory environment has also catalysed the achievements towards financial inclusion. Traditional banking models are now being aided by the fintech models. New institutional channels like the Small Finance Banks, Payments Banks and fintech platforms amongst others, are expected to bring in innovations in products and processes for the last mile clients. With non-traditional giants like Amazon, WhatsApp, Google etc. amongst others now entering the market, the pace and scale of innovations in outreach of financial services has become very exciting.

With these emerging new trends and innovations, new issues and challenges need to be addressed. The diversity of bank and non-bank institutions engaged in delivery of financial services to the un-served segments has been rising, leading to innovation and competition, and greater use of digital financial technology. With these developments, the issue of customer protection and ensuring real and tangible gains from financial inclusion at the client's end assumes huge significance needing policy attention. There is an accentuated need for creating an enabling ecosystem for viable last mile delivery channels to operate as well. While we have near universal coverage of bank accounts, dormancy still remains a major challenge; the Global Findex Report 2017 points out that with increase in account ownership, account owners with inactive account in the past year also increased materially. The gender gap in account ownership as well as access to formal credit has to be dealt with for equitable development; and with thrust on digital economy, data privacy and customer protection of the bottom of the pyramid customer need priority. The unmet demand of formal credit for the Micro and Small Enterprise (MSE) sector, agriculture, health, housing etc. needs to be addressed through the formal financial sector.

The current economic downturn caused by the country wide lockdown in the wake of the Covid pandemic has severely impacted the fragile financial status of unorganised sector workers and informal micro and small enterprises. The role of access to entitlements as well as financial services including access to payment systems, affordable credit and insurance has become even more significant. The usage of digital transactions has become prominent in this crisis. High transaction failure rates in the Aadhaar Enabled Payment System during the lockdown had serious consequences for the most vulnerable users who needed to access and remit cash to stay afloat during the crisis. The need for a more comprehensive policy solution for furthering financial inclusion and building a resilient and inclusive financial system was amply pronounced.

In this context, Inclusive Finance India Initiative, set up as a global platform to support the drive for universal and comprehensive financial inclusion in India through knowledge dissemination and policy dialogue, will aim to inform, influence and support the policy making process for advancing comprehensive financial inclusion in India.

The platform engages the foremost governmental, regulatory, business, market enablers, academia and other leaders in the financial sector to shape global, regional and industry priorities in financial inclusion.

INTRODUCTION

Inclusive Finance India Summit seeks to inform, influence and support policy towards strengthening an enabling environment, besides providing a platform to discuss key issues and challenges and build consensus on the way forward. The sessions during the 2020 Summit were aimed at improving preparedness of financial inclusion actors by building tenets of a more considerate, responsible and inclusive response framework. The Summit provided many opportunities for Ministry officials, representatives from RBI, Private Sector Banks, SFBs, Financial Institutions (NBFC, MFI and others), Payment Gateways, Credit Bureau, Fintechs, Impact Investors, Multilaterals and policy makers to interact, engage, initiate dialogue and enable action through partnerships, innovation and facilitating policy support in the financial inclusion space.

A cross cutting theme this year was building adaptive capacity and financial resilience of lower income underserved individuals, institutions and businesses catering to such segments to weather economic downturns and fragile capital markets in the backdrop of global health pandemic. The session themes were anchored around reviewing of the solutions and policies being developed by regulators, policy makers and financial institutions in response to the Covid crisis, particularly for supporting the informal sector enterprises, poor and vulnerable clients.

The summit also adapted to the "New Normal" and went completely virtual. The Summit was well attended by 2100 delegates across 36 countries and 115 speakers - policy makers, regulators, academicians, practitioners, financial institutions and various other stakeholders from within and outside India. On the Inaugural day of the Summit, the Inclusive Finance India Report 2020 was also released virtually, which is an insightful analysis and an honest critique of the financial inclusion progress in the country on an annual basis. The Summit featured technical sessions under 5 thematic tracks covering - Micro Finance, Agri-Finance, Micro-Enterprise Financing, Responsible Digital Financial Services and Financial Inclusion through Self Help Group model.

The Inaugural session included eminent speakers like Dr G R Chintala, Chairman, NABARD, Amitabh Kant, CEO, NITI Aayog, The highlight session of the Summit was a candid fireside chat between Hardeep Singh Puri, Minister for Housing and Urban Affairs, GoI, & Ajay Banga, Executive Chairman, Mastercard which was moderated by Shereen Bhan, Managing Editor, CNBC - TV18 and the free-wheeling conversation between Aditya Puri, Former Managing Director, HDFC Bank and Tamal Bandyopadhyay, Consulting Editor, Business Standard on Future of Banking.

DECIPHERING POLICY RESPONSE TO COVID: IMPROVING PREPAREDNESS FOR FUTURE CRISIS

Moderator – Naina Lal Kidwai, Former Chairman, HSBC India

Speakers –

- Soumya Kanti Ghosh, Group Chief Economic Advisor, SBI
- V Vaidyanathan, MD & CEO, IDFC First Bank
- Michael Wiegand, Director –Financial Services for the Poor, Gates Foundation
- Arvind Mayaram, Principal Economic Advisor, Government of Rajasthan
- Dr Shamika Ravi, Director of Research, Brookings India

The panel discussed how enhancing the financial ecosystem and its protective framework could help meet the crisis situations as Covid-19 pandemic in future. Existing ecosystem specifically digital transformation of financial services through JAM trinity, played a significant role during the crisis. Creation of architecture pre-crisis was critical to handling the crisis. There had been no such precedent where the whole supply chain and the system came to a standstill and survived basis its preparedness.

These digital initiatives in financial sector undertaken during last few years not only helped government to reach the needy in time but also people who were otherwise out of reach of the brick and mortar branches.

Government, regulator and financial institutions took various initiatives to fight the crisis and that helped in economic recovery which is significantly better than anticipated by most. There are challenges which need to be understood and acted upon like geographical disparity in digital transformation and AADHAR linking, dormant accounts, job-security/surety during crisis specially for private sector, leakages in the system which leaves out many needy without support as they are not part of database or banking system, disparity in distribution of support during crisis – some pockets were not served as others, unorganized sector, geographical disparity in terms of economic recovery and many more to improve preparedness for future crisis.

Sheer scale of crisis was humongous; the whole system came to a standstill for almost 40 days. Nowhere in history such a large scale reverse migration of labor took place nor such loan moratorium was provided. Due to crisis financial systems, institutions, regulator – the whole system, got stress tested and performed well except for a few verticals. Some of the initiatives which expanded significantly during last 2-3 years like BC model came under lots of stress due to migrant movement. This crisis has given kind of opportunity for banks and financial institutions to strengthen weaknesses of their systems.

Digital transformation definitely helps in improving the performance but it is just a mean not the end, hence better Social support policies and schemes built over long period of time are vital.

The MSME sector which is already lagging behind due to lack of structured support for a long time got significantly stressed due to lack of financial cushion during crisis and further by market shifting towards large industries. Support provided before crisis during last 5-6 years changed things positively for MSME and the government and financial institute brought in lots of support schemes for them. MSME sector particularly prone to risks which large industries don't and more need to be done specifically on reducing taxes, compliances and regulatory burdens.

KEY TAKEAWAYS

- **The whole ecosystem got stress tested during the pandemic and it also played a pivotal role due to existing policies and system specifically in digital finance.**
- **All the stakeholders including central and state governments, regulators, policy makers and financial institutions need to take feedback from stress testing and impacts of support policies rolled out.**
- **There is need to broaden the scope of support umbrella to cover population and businesses left out during this period.**
- **Smaller enterprises need to be provided more support by reducing tax rates, compliance and regulation.**
- **Spending need to be pushed more for infrastructure project and public health infrastructure.**
- **Farm sector need liberalized policies to enhance price realization.**

TRACK : MICROFINANCE

TECHNICAL SESSIONS 1

POLICY RESPONSE TO COVID: FISCAL & MONETARY RELIEF TO LOW-INCOME BORROWERS

Moderator – Dr Alok Misra, CEO & Director, MFIN

Speakers –

- Manoj Nambiar, Managing Director, Arohan Financial Services
- Veena Mankar, Non-executive Chairperson, RBL Finserve
- Baskar Babu, Managing Director & CEO, Suryoday Small Finance Bank
- Jayesh Modi, Head, Inclusive Banking Unit, HSBC India

Lockdown came as a shock to the Microfinance industry and most of the players gradually understood the gravity of situation. Being a high touch business lockdown presented a bleak situation with almost no visibility for all players in microfinance sector during initial months. Such situations generally leads to catastrophic impact on customer behavior as well as repayment. It was all about predicting amid uncertainties and planning solutions.

At this crucial juncture when there was lots of uncertainty, Institutions took a few key decisions like employee retention and maintaining a regular education/awareness communication with customers. This was kind of indication that whatever the situation be, MFIs are there to support. MFIN and Sa-Dhan took initiatives to regularly come up with guidelines and advisory for MFIs during this period. All of this helped in continuing relationship with client. Digitization took a big leap and from a high touch business many institutions aggressively prepared for a remote-touch business. Digitization at this level also created a large gap between digital infrastructure and capabilities with MFI and literacy and infrastructure with clients.

The silver-lining came in the form of moratorium announced by RBI which gave opportunity to MFIs to plan strategies to reduce risk. MFIs, already in touch with their clients, started educating them about terms of moratorium and this motivated some clients who did not opt for moratorium and paid during that period. This process also helped in keeping in touch with clients. This moratorium also presented a challenge to many MFI's for their on-lending portfolio. Clients moratorium was announced but not for MFI's and while most of them applied for it only 30-40% received moratorium facility initially. Post representation to RBI, these number changed to 50-60% of MFIs.

The cash-flow gap created due to this was supported by loans sanctioned/ disbursed during last quarter of 2020 as well as credit line from NABARD/ SIDBI/ MUDRA during the first phase of moratorium. But these were only be availed by 20% of players by May-20 and 60% by August. During second phase partial credit guarantee scheme was launched which were routed through PSU. This again could reach to large and upper middle level institutes. Lower level institutes again struggled. Another initiative by RBI is issuance of TLTRO in two phases. As this was investment grade financial tool only larger MFIs with ratings and history of credit were able to get the funds. During the second phase of TLTRO, smaller and medium MFIs and NBFCs were given at least 50% of total project outlay.

Interest subvention scheme was also brought in by RBI with ex-gratia payment of difference between simple and compound interest rate, for those clients whose loans are regular as on 31st March. This scheme brought in lots of work and low financial benefits to client. One more important contribution of the interest subversion is client awareness that only those who are not NPAs, were able to get benefit and this was a very significant message for credit discipline.

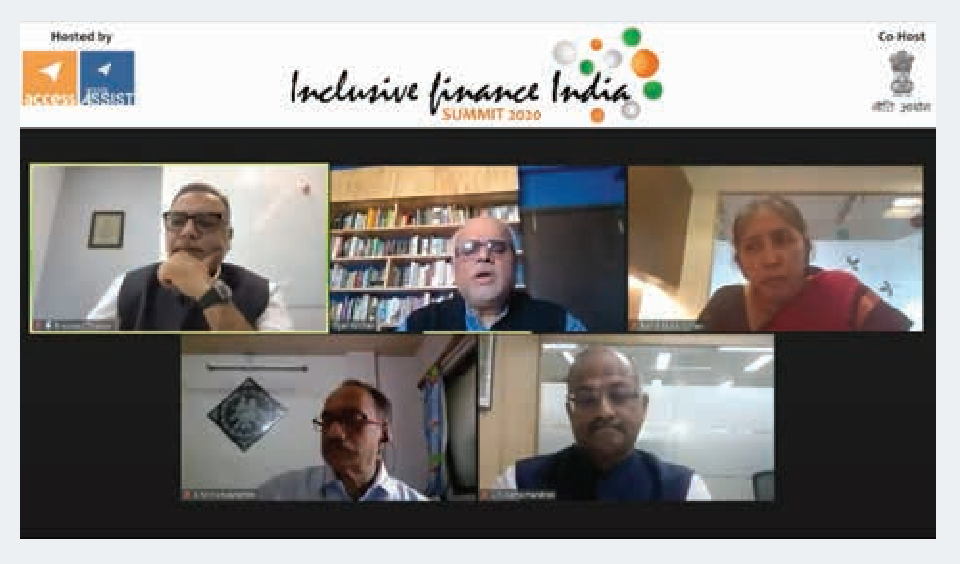
Education of clients on difference of flat and reducing interest was achieved through long process of training. Compound interest as part of interest subvention is very difficult to explain over existing system and would need lots of adjustment to be made at the back end.

A large part of loan restructuring, specifically in microfinance sector is ever-greening. Better option would have been to provide long term credit with emergency loan or overdraft facility based on repayment capacity as well as need of client. Challenge is to re-invent JLG business and provide new products/re-structuring suitable to JLG.

KEY TAKEAWAYS

- **Industry has much more resilience and scope for innovation then what was thought possible and there is a lot of potential for a second transformation in the sector.**
- **It is time regulator look at the sector as business instead of type of institution.**
- **The pandemic has given opportunity to bring in low touch-high touch model for used to credit and new to credit clients.**
- **Moratorium played crucial role for survival of sector from effects of COVID and lockdown.**
- **Proper mechanism for the fiscal and monetary reliefs to reach on-time to mid and small institutions and their clients is needed.**
- **It is high time that microfinance move beyond micro-credit.**
- **Industry is recovering at much faster pace than anticipated, expected to reach at normal level by the end of fiscal year.**

TECHNICAL SESSIONS 2



SURVIVING THE LIQUIDITY SQUEEZE: HOW ARE SMALL MFIs NAVIGATING THE PANDEMIC?

Moderator – Prashant Thakkar, CEO and Director, Centrum Microcredit

Speakers –

- Gyan Mohan, CEO, Adi Chitragupta Finance Ltd
- K M Vishwanathan, CEO, Mpower
- L R Ramachandran, CGM, NABARD
- Bama Balakrishnan, COO, Northern Arc

The pandemic has unfortunately impacted the unsecured small ticket lending segment with micro-finance taking the brunt significantly. While government and RBI has announced a slew of fiscal and monetary measures targeted for providing liquidity relief to financial institutions. Moratorium which was availed by most of MFI clients but those MFIs couldn't get the same from their lenders. Fund earmarking in TLTRO 1.0, TLTRO 2.0, special liquidity for NBFCs and MFIs among others, banks are inclined towards directing credit flow to better rated, larger NBFCs and Financial institutions. Client that the sector serves are in need of more liquidity to survive or restart but institutions didn't have liquidity to offer them and situation is continued even now. Collection post moratorium have been increasing gradually but steadily and at much better pace than other sectors. Some geographical pockets still putting pressure on repayment due to various reasons. Small and medium MFIs are struggling for repayments in some pocket, there is pressure from lenders to pay them back and demand from clients and all this is putting up stress on liquidity situation. MFIs with significantly lower capital base, usually borrow from market with personal guarantees of promoter, generally have high cost of debt, incur higher operating expense and have almost nil buffer to absorb portfolio quality shocks. Under such scenario, smaller and emerging MFI's sustenance is largely linked with enabling policy support in form of favorable borrowing regime and capital support from various funds or fund of funds parked with agencies like NABARD, MUDRA, SIDBI etc. As of now if SIDBI fund is sanctioned, it won't be of much use as it has to be returned in next two months however NABARD scheme is better and providing much required relief.

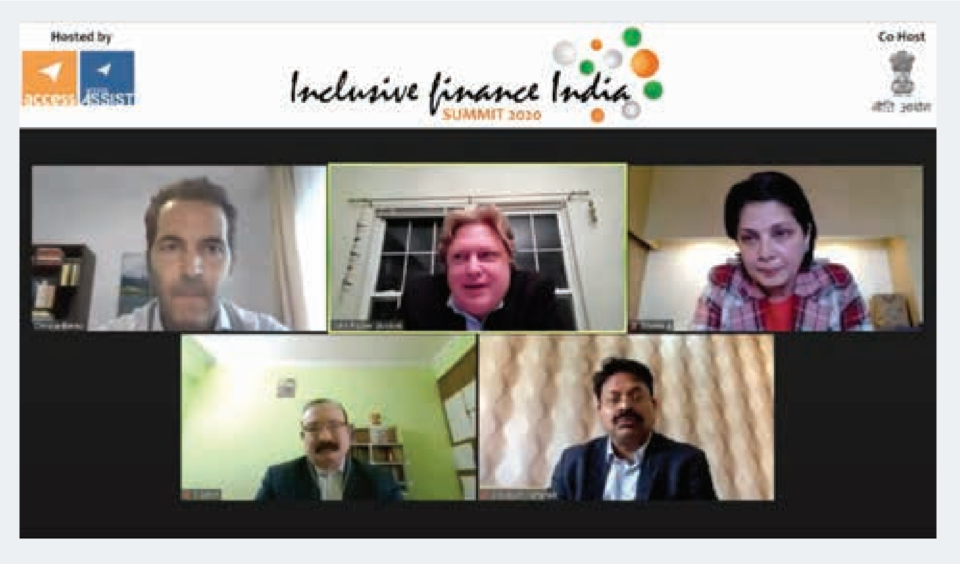
Field operation also brought in lots of challenges like keeping the team motivated, maintaining touch with client and balancing digital and physical approaches of contact with client. This brought in lots of new processes and components in MFI operations, like digital transactions, UPI QR codes in branches etc. The overall support with which small players survived this crisis have most contribution from staff and clients rather than financial market and government.

There have been efforts from government/ NABARD but various regulatory and market conditions prohibited funds to reach smaller MFI's but the situation is improving now with OTRR crossing 90% and mainstream investors coming back to sector. The event with Sambandh finserve in Orrisa have created lots of discomfort with funders and many held back their purse strings, this just added further stress to sector specifically smaller MFIs. NABARD have put up various schemes and funds specifically for smaller MFIs but it need to adhere to some guidelines and regulation as a apex institute, still it is putting lots of efforts for supporting the cause. MFIN and Sa-Dhan as SRO lobbied with regulators and government and that resulted in some of the supports that sector received but it didn't reach to members of industry which needed it most.

On customer education front SRO came up with various tools to reach customer about education on moratorium and also with strict guidelines for MFIs to handle clients during pandemic. There are few areas for which regulator need to look again to adjust to realities of sector. The type of risks that the sector faces and interest rate margin guidelines that they need to adhere to are not compatible or atleast don't make a good business case. The 21.89% interest cap is historical low and it could prove fatal to at least the smaller MFI if not addressed promptly.

KEY TAKEAWAYS

- **Funders should not make credit rating at this juncture an entry barriers and should look at portfolio quality.**
- **Regulator, DFI, NABARD should see that the credit support trickle down to smaller players.**
- **The learnings from the crisis should be used by funders to work towards extending sources of funds/ debt capital for smaller and medium MFIs.**
- **The momentum of measures to support smaller entities should be maintained.**
- **The policy of rating agencies to treat even one day delay as default need to be changed for such challenging times.**
- **As funders consider smaller MFIs as risk portfolio they can add risk premium and lend, this way intermediaries cost can be reduced as well as time taken to trickle down the fund flow.**
- **Regulation should be moved from entity based to activity based.**
- **Interest rate margin guidelines need to be revisited by regulator considering the risk profile the sector need to address.**



SHIFTING GEARS: DIGITAL TRANSFORMATION OF MICRO FINANCE INSTITUTIONS

Moderator – John Fischer, Chief Investment Officer, ACCION

Speakers –

- Dibyajyoti Pattnaik, MD & CEO, Annapurna Finance
- Christian Banno, Chief Business Officer, CASEA & Board member Bina Artha (Indonesia) and One Puhunan (Philippines)
- Shweta Aprameya, Founder & CEO, ARTH
- P Satish, Executive Director, Sa-Dhan

MFIs matter in the lives of poor people - they essentially fulfill a very critical function of timely lending for productive purposes to people without collateral or credit histories. While the financial inclusion landscape has undergone remarkable transformation with the promise of new-age fintech's potential to reach unbanked at scale, micro-finance institutions have been catering to a very specific need of the low income unbanked community and last mile customer points– timely credit from trustworthy partners, which fintechs have sadly not solved for in great efficiency.

Digital challengers are easily achieving scale but may not be bringing the same kinds of services to the market, much less delivering them responsibly. While high-touch mode is one of the key component for micro-finance institutions to flourish, microfinance institutions have been trying to get themselves moving on the digital transformation journey for enhanced efficiency of service delivery. There is a need to monitor and address the reasons – why some section of society have less digital participation than others to take the benefit of financial inclusion to all.

Digital trust facts have gone up post-COVID out of necessity and all of the trends pre-COVID are now accelerated in digital transformation vertical. Microfinance sector policies and processes matured around physical contact model and have well defined and client protection system. A rapid digital transformation also brings in new challenges of client protection in microfinance sector. The most important aspect that digital transformation targets is optimization. It gives opportunity to Microfinance institutions to reduce touch events, digital collection through UPI or other means, digitize client literacy, biometric utilization, digital KYC authentication etc. This gives an opportunity to sector to increase efficiency of operations, reduces cash related risks and thus reduce cost of delivery. Digital transformation also gives opportunity to address clients need more individually rather than sticking to groups requirements.

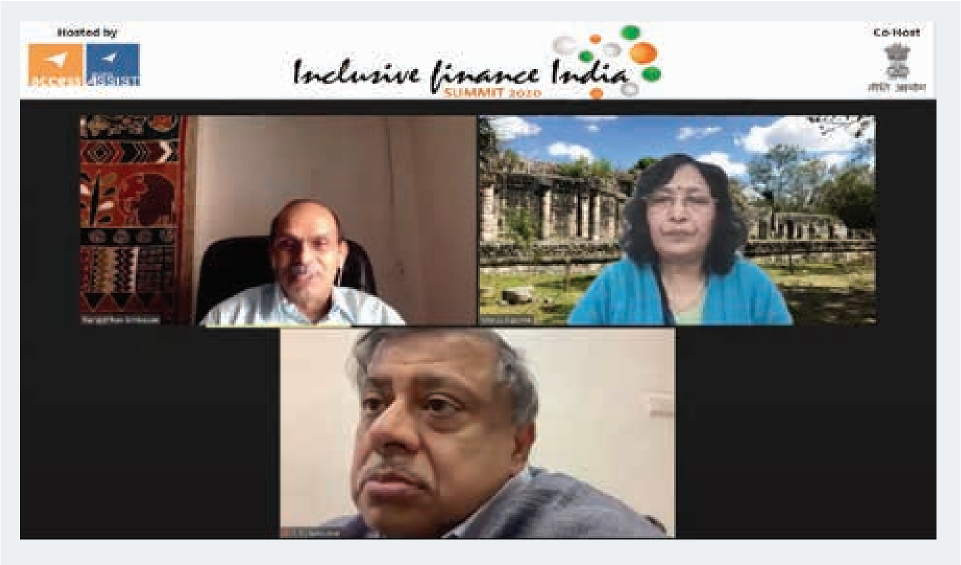
Government bringing in various digital processes like CKYC or UPI and that part of digitization is something which will work as base on which sectors digital transformation will stand strong. There are some challenges as well like not allowed to used AADHAR, or rural digital infrastructure which need to be considered before implementation of any digital solution. The group based model used to work fine with small loan sizes up-to Rs.20-30 thousands. Now the limit as well as loans are much bigger and that would require serious underwriting. The digital transformation provides that opportunity by enhancing operational efficiency. One more challenge that digital transformation brings in is how to go digital which have a cost and also to pass the cost savings from better efficiency to customers.

Fintechs work with data which is available and they are not in competition with traditional financial institutions. There is lots of play with client interaction which Fintech can't replace. They are basically working to to create better processes, methodology to identify, originate and even do credit appraisal for client whose data is already in system. Many organizations are actually in process of going to client physically and acquiring data. So the traditional companies are actually digitizing the customers and Fintechs are into business of using that. There is scope of collaboration where fintech's provide large ticket size loans based on data available with MFIs and MFI which is originating a large ticket size loan need a fine tuned digital technology available with Fintechs for better underwriting as well as real time financial transactions. There could be more such collaboration potentials.

KEY TAKEAWAYS

- **The perspective of clients need to be addressed for all the digital transformation taking place.**
- **Digital literacy training of clients need to go hand in hand with digital transformation.**
- **MFIs need to work on balance between physical and digital relationship with client according to client's needs.**
- **With digital transformation physical teams can utilize saved time and increased efficiency to improve client relationship and to offer more products and services.**
- **Team need to be trained and equipped for new way of doing business.**
- **As loan sizes are increasing organizations need to work on utilization of technology to enhance underwriting capacity of their team.**
- **Smaller institutions may need to be provided assistance for digital transformation.**
- **As MFI move towards digital transformation they need to work on security aspects of financial transaction as well as clients information.**

TECHNICAL SESSIONS 4



RESPONDING TO NEW POLICY REFORMS & NUDGES IN AGRI-SECTOR

Moderator –N Srinivasan, Sector Expert

Speakers –

- Manju Agarwal, Former Deputy Managing Director, SBI
- P S Jayakumar, Former Managing Director & CEO, Bank of Baroda
- Krishna Rao-
- Shaji K V, Deputy Managing Director, NABARD
- Barkat Ali, Chief General Manager, Business Development – Financial Inclusion & Micro-Markets, SBI

At the macro level agriculture finance have changed. Agriculture finance as percentage of Agriculture GDP have been declining over last five years, capital formation as percentage of agriculture output is declining, share of investment credit in total bank credit is declining and all these are not good trends from macro-economic perspectives. However at micro-level similar products, processes of assessment-delivery-recovery is maintained over the years. Most of the credit is in from of KCC which does not take care of all agriculture credit requirements. KCC have lost its relevance in today's time and 35-40% of agriculture credit falls outside of KCC. The key products offered to farmers along with the process of need assessment credit-worthiness haven't changed over the years. There is need to adopt new technology and processes as requirement and available information have changed over the years. Not all farmers have access to institutional credit and more than a third still dependent on traditional channels for credit requirement.

The scope of JAM trinity is limited to all farmers having AADHAR linked account and using mobile phones. The amount which gets credited to those AADHAR linked accounts is withdrawn in cash and there is no digital footprint of farmers expenses which can be used for digital credit assessment.

One more challenge with agriculture sector is sustainability. MSP procurement have ensured that there is no need to assess market for wheat and paddy in northern India, and growing those are safest investment for farmer. We are procuring these crops at much higher rates than international market. This mono-cropping pattern makes agriculture un-sustainable in long run and there is serious need of making marketing more vibrant so that farmers are encouraged to diversify. Dairy have become self-sustainable due to availability of a strong value chain. Sector need to look toward value chain financing in other produce' of agriculture to bring in sustainability. Allied agriculture sectors contribution in about 40% whereas credit flow to it is only 9%. If credit flow is increased to this contribution of sector can be increased significantly. Another area of concern is small and marginal farmer which accounts for 85% of total farmers and 47% of total cropped area/land holding. Credit flow to them is only 9% of total credit of agriculture.

There is need for agricultural reforms which supports farmers, FPO and farming enterprises and boosts confidence of the financial institutions to start considering channelize capital to the sector. Financing support beyond the mandatory Priority-Sector-Lending in addition to other structural reforms in agriculture holds the key to revival of rural economy. The Government of India has released a series of agricultural marketing reforms with the underlying belief that fortunes of agriculture are linked with the revival of India's overall economy post pandemic. However agricultural experts have highlighted the need for an equal reciprocation from financial institutions for directing more capital to agriculture sector for a more resilient economic revival.

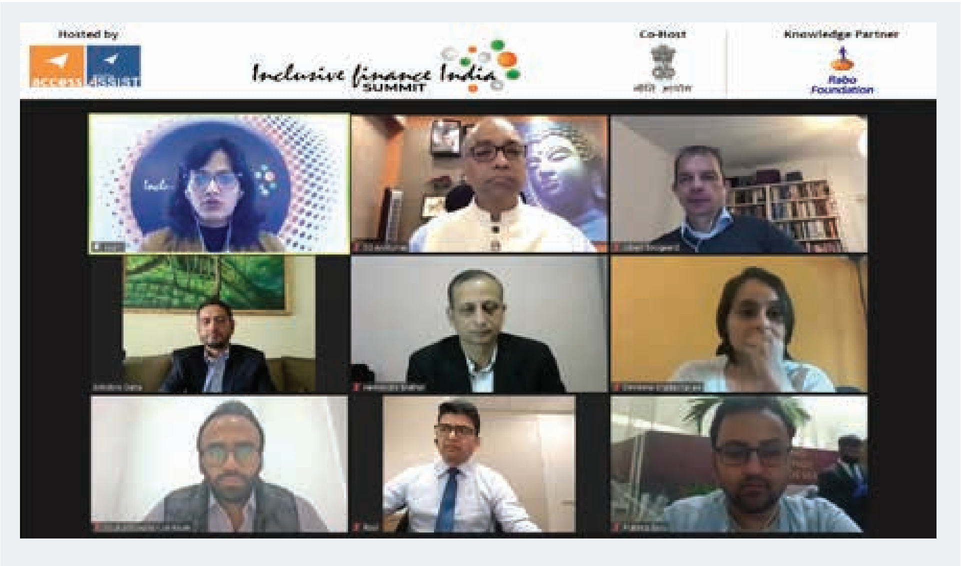
Credit discipline is not very encouraging with agriculture credit having NPA at around 9%. There is linkage of NPA with farm loan waivers and policy makers need to look at these perspective seriously. Similar problem is huge subsidy declared for various capital expenditure in agriculture sector. If up-to 100% subsidy is available everyone will wait for that but the budget is not that big and only a portion of farmers who would have benefited from those capital expenditure invest. That is a very big area of concern. Capital investment with declared subsidies is actually hurting the sector more.

Agriculture sector is moving towards universal income system where all subsidies will get aggregated and will be given in form of one credit. That will give an opportunity to farmers to adopt modern technology by ensuring targeted utilization of funds. This would bring significant positive change in whole agriculture economy. New policy reforms like APMC, e-NAM and FPOs will enhance output side performance of sector. Value chain financing by banks are important and banks need to move toward that at much faster pace.

KEY TAKEAWAYS

- **Products need to be developed by stakeholders which are customer specific, cluster specific and area specific to suit credit requirement of farmers.**
- **There is need to adapt new processes and available technology for assessment of credit need and credit-worthiness in Agriculture sector.**
- **Policy level changes are required for bringing in diversity in cropping pattern apart from paddy/wheat mono-cropping.**
- **Policy and operational level changes are required to make share of credit flow to small and marginal farmers rational.**
- **Sustainability of agriculture is also dependent on whole supply chain and more credit support is required in allied sector.**
- **Subsidies and waivers are actually stalling growth on various fronts. Policy makers need to do an assessment and redesign the whole concept of subsidy.**
- **There is need to invest in consumption side of agriculture to accommodate enhanced production with various investments in production side.**
- **Technology adaptation is key to overall growth of agriculture and this need policy level push.**
- **Blanket product like KCC have served its purpose but banks need to shift from KCC and develop more need based products.**
- **NBFC should be made partners of Agriculture finance and supported for their access and expertise of last mile connectivity.**
- **Collective of small and marginal farmers should be intuitionalism with support policy and they can get relatively easy access to credit.**

TECHNICAL SESSIONS 5



POTENTIAL OF AGRI FINTECH IN IMPROVING AFFORDABLE ACCESS TO FINANCE FOR FARMERS

Lead Presenter – Hemendra Mathur, Co-Founder, ThinkAg

Moderator – Arindom Datta, Executive Director and Head of Rural & Development Banking / Advisory, Rabobank

Speakers –

- Anil Kumar SG, Founder & CEO, Samunnati
- Arjun Ahluwalia, Founder & CEO, Jai Kisan
- Prateep Basu, Co-founder & CEO, SatSure
- Albert Boogard, Head Innovations, Rabo Foundation
- Devleena Bhattacharjee, Founder & CEO, Numer8
- Raul Rebello, Senior Vice President & Head, Rural Lending & Financial Inclusion, Axis Bank

India is a country of small holder farmers having 86.2% share. High degree of interest cost reduces the profitability of farmers even after having good margins with their crops. One more critical aspect of agriculture finance is 30 to 40% of farmers work on leased land that reduces their chances of access to finance. Only 30% of small and marginal farmers have access to formal credit at about 7% PA and remaining 70% have informal sources of financing at rates as high as 30%. There are challenges that bankers face like digital information, financial transaction data, estimating credit worthiness, assessment of various risks and their mitigation, recovery and defaults. Similarly bankers also face challenges in financing post-harvest and ancillary activities. Agritechs could be solution to the challenges the sector is facing.

Agritech innovations are trying to solve multiple problems prevalent in Indian agriculture including low productivity, water stress, poor soil health, sub-optimal efficiency in supply chain, post- harvest loss, lack of farmer access to institutional credit, crop insurance, quality inputs and market linkages.

Among others, enabling efficient access to credit and formal financial products to farmers is a critical pain point that can be meaningfully addressed by innovative solutions by various AgriTechs. Solutions ranging from Farmer Onboarding, measuring farmer credit worthiness, product innovations to ensure end-use through crop-linked credit, risk-assessment, monitoring and mitigation, loan recovery solutions and post-harvest financing offers a promising alternate solution for mainstream-commercial banks to adopt and unlock capital flow to farmers and primary producers. While mainstream commercial banks have largely dominated the agricultural ecosystem as access to finance partners, they have restricted ability to be understand and underwrite loans to farmers and monitor the agri-portfolio. The new-age agritech players are deploying technology and bringing in unique process and product innovation, which when plugged into the banking engine has potential to unlock efficient capital flow to farmers.

One more crucial aspect that Agritech would be able to help is sustainable financing by guiding both sides of supply chains as well as financial institution with support from data and knowledge to manage the sustainability. Farmers producers organization (FPO) could prove to be a crucial component of the value chain as well as source of authentic data to be utilized for providing financial services as they have access to farmers and farms gate as well as scale to have cost effective data agreegation. Collaboration, coordination and partnerships between new-age agriTechs and mainstream commercial banks will foster inclusion and efficient capital flow to farmers.

KEY TAKEAWAYS

- **For creating digital financial footprints of farmers forward linkage entities can provide necessary support .**
- **Financial institutes need to understand and utilize various technologies like image processing for valuation of assets and other aspects of assessment.**
- **Warehouse receipt finance is in nascent stage in country and both Banks and Agritech need to collaborate to expand the financial services to this segment.**
- **There so many aspects of agri-financing that services and expertise of multiple agritech would be needed to move forward. Banks and other FI need to start mapping and collaborating as per their requirements.**
- **There is critical need of digital onboarding of farmers and for that Agristack need to be build.**
- **System need to be build where the whole backward and forward linkages of agri value chain comes on digital platform.**
- **A Credit market place is required which can convert crop loans into post-harvest loans.**
- **Climate-linked financing need to be built and promote.**
- **Loan waivers management need to be driven by data and not on whims.**
- **The sheer number of farmers and wide variations in land sizes, crops, cropping pattern, seasonal variation will need a lots of varieties of services and products for farmers. Both fintechs and banks need to take this in account.**

TECHNICAL SESSIONS 6

MITIGATING AGRICULTURAL RISKS:
MESO-LEVEL INSURANCE IN AGRICULTURE

Moderator – Fabrizio Valenti, Head, Financial Inclusion, LEAD at KREA University

Speakers –

- Presenter – Sabina Yasmin, Research Fellow, LEAD at KREA University
- Mangesh Patankar, Head Agriculture Reinsurance India, Swiss Reinsurance Company
- Enamul Mazid Khan Siddique, Lead, Climate Justice and Natural Resource Rights, Oxfam Bangladesh

Over the years insurance in agriculture sector has primarily been targeted towards individual oriented micro insurance. There are other stakeholders who have direct relationship with a relatively large group of farmers as agriculture intermediaries. Meso level insurance takes benefit of one to may relation of these aggregators and offers a insurance products for collective coverage. One of the differentiating factor in meso level insurance is that the policy holder is risk aggregator / institution instead of individual farmer.

The Meso-level insurance provides safety net to farmer as well as intermediaries from risks ranging from increased indebtedness, crop failures, non-remunerative prices which leads to losses. There are few aspects which need to be understood like – lack of understanding on how an insurance business model works, aggregator insurance is based on their choice etc. Meso-level insurance can also play role in reducing cost of administrating insurance products but a scale of operation with active participation from stakeholders is required. Specifically government can play a significant role in supporting the program.

This appears to be a potentially profitable business for private insurance companies as well and if they start with 5-10% of profit initially that could prove to be a good starting point. Some of the aspects that private player need to consider are that they need to price the product properly, loss assessment need to be improved, claim process need to be streamlined. They may need initial push from the government in form of some incentivizing. Meso-Level insurance can utilize informal channels to reach targeted market like through FPOs, Federation or SHGS. Financial institutions can also be important delivery partners in this. As agriculture insurance is traditionally linked with credit and there is very low insurance coverage to non-loanee. FPO and federations could play a crucial role of reaching out to non-loanee farmers.

One more crucial factor that need to be understood is that Micro-insurance is an individual decision product whereas Meso-level insurance, decision would be taken by institution where decision making would be a far more complex process. Another factor to be considered is affordability. There may be risk aggregators who will not be able to afford and some may be able to afford. There is also a risk involved when aggregator is more powerful than the individual farmers and that imbalance can seriously hamper intended benefits of insurance to individuals. One of crucial benefit that Meso-level insurance provide is that as a collective there are better chances of understanding the importance of insurance and buying. Also due to being a institution there is better understanding of insurance and chances of conflicts are lower than micro insurance products. One of the key challenge of Meso-level insurance is affordability. A larger scale and some support from government probably make these products more affordable.

There are lots of possibilities and scenarios where insurance companies and policy makers need to work for designing and offering of products. These innovations will lead to incremental learning curve for institutions and policy makers both which may ultimately lead to better product and risk converge to aggregators like input supplier or financial institutions.

KEY TAKEAWAYS

- **Private insurance companies can generate a profitable and stable business from this segment and they need to take initiatives in this vertical.**
- **Policy makers and government have important role to play by providing required guideline framework and necessary incentivizing for starting of sector.**
- **Insurer and policy makers can utilize non-traditional channels/ partners like FPOs/ SHGs / Federations for initial consultation for policy development as well as marketing partners.**
- **One area of concern could be power relationship between aggregators and individual farmers. Policy makers and regulators need to pay special attention to this concern.**
- **All the stakeholders need to work closely to gradually develop products suitable to type of their business component and risks involved.**
- **Customization is going to be most important factor for product developers to suit the product to variegated needs of various aggregators of agriculture sector and risks involved with that.**
- **Success of products would be dependent on not only the benefits of products but also process and methodology to collect premium from individuals. This will need an extensive and effective training component with sales pitch.**
- **Government support will help in popularizing the product by reducing the cost initially with grant and help to gain the required scale for the products which will lead to affordable products in long run.**

SPECIAL FIRESIDE CHAT: ECONOMIC INCLUSION OF THE URBAN BASE OF THE PYRAMID – GLOBAL & LOCAL EXPERIENCES

Anchor – Shereen Bhan, Managing Editor, CNBC - TV18

Speakers -

- Hardeep Singh Puri, Minister for Housing and Urban Affairs, GoI
- Ajay Banga, Executive Chairman, Mastercard

World Economic Forum- World Risk Report indicates that the COVID pandemic has increased inequalities and social fragmentation which is going to impact economy for next few year and lives and livelihood are serious concerns it presented for immediate future. India is only country which had to feed 800 million people for 9 months during pandemic.

Government have many development oriented schemes in place still being in such a large scale pandemic, the learning from performances of various schemes is that you need to pay attention to both lives and livelihood both. There is scheme for housing and it is very much successful but learnings from pandemic tell us that migrants moving to cities need place to live and that's where affordable housing schemes would play a critical role and government have already started process for it. Second scheme that government launched on basis of learnings is for street vendors, it was launched in June and received excellent traction from street vendors. Around 20 Lakh loans have already been disbursed and things are moving at commendable pace in these scheme. The economic impact of pandemic is also dependent on availability of vaccine and there are high probability that by mid-February country will have enough vaccine available and that would change the scenario and at that time economically vulnerable people will need special attention.

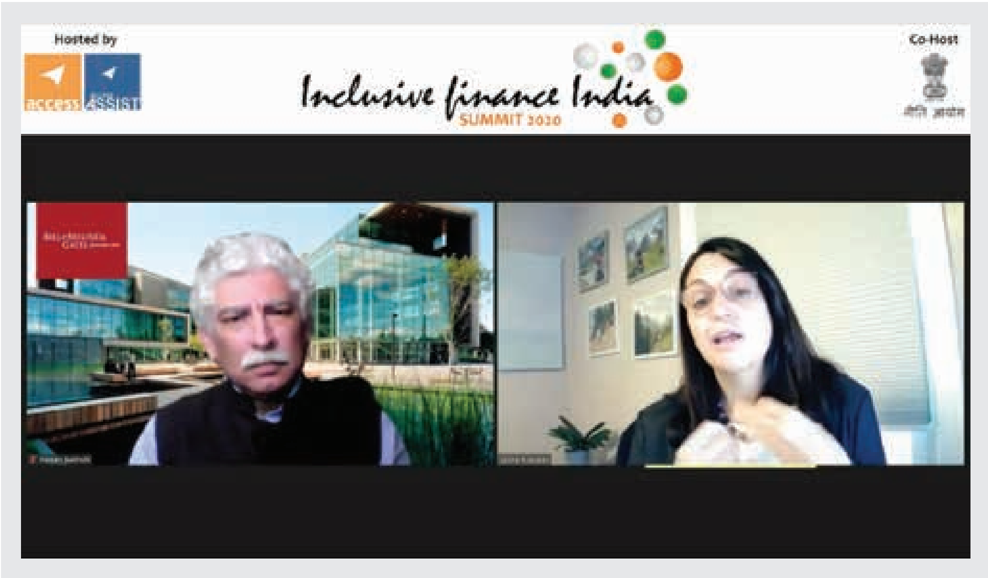
The pandemic have impacted already vulnerable people, women, poor, marginalized, and migrants more than others throughout the world. The more worrying fact is digital divide, we can't have internet of everything without having on board with digital platform. Government alone can't achieve all this and private sectors will be playing a crucial role with guidelines, policies and support from government. India have around 700 million broadband users, largest in the world, 696 million Indians using smartphone and highest data usage per month per smartphone at 9.8GB in the world as per Ericsson mobility. Numbers for digital specific schemes in India are also impressive and shows that the government have been doing lots of work in this field. Public private partnership is playing a crucial role in successful execution of many government programs be it in aviation, smart city, affordable rental housing or any other. Private sector have a important role to play in all the flagship programs of Housing And Urban Affairs Ministry.

Make in India program should not focus only on manufacturing. Being competitive in low cost manufacturing is very difficult. India should focus also on service sector, having a large educated workforce makes it very attractive option. In 11 years Master-Card have increased its manpower from 1.2% to 16% of global workforce. That is the power of service sector and it can take the Make in India program to next level. One more point of focus should be to provide a level playing field for international players without compromising on protection to domestic industries. Government is also looking at long term education sector reforms specifically in advanced fields of science and technology. One of the focus area of government should be on data security as this is going to be one of the largest and important commodity of future.

Another important thing to do is to empower women entrepreneurs not only by providing them access to finance but also to help them get better business acumen and opportunities to better market places as well. National urban livelihood mission is working towards goals of empowering urban women and poor by skill development, bringing them under SHG and providing them access to credit. Real challenge is to reaching out to those who need support in developing basic skills and bring them to SHG coverage.

KEY TAKEAWAYS

- **Special attention need to be given to economically vulnerable people while planning for economic recovery of country.**
- **We need to work on digital divide with focus on making data as well as devices affordable.**
- **Government need to engage with people more digitally, that would enhance the need and chances of reducing the digital divide.**
- **Government need to work on framework where private player can take a proactive part in reducing digital divide.**
- **Focus should increase on service sector under Make In India Program.**
- **International investors/ industries should be provided level playing field to bring in expertise and technology.**
- **Efforts put by this government in education field should continue to keep the workforce / service sector prospective competitive.**
- **One of the important factors that India need to work on is "Data-Security" both at policy as well as implementation level.**



FINANCIAL INCLUSION IN TIMES OF COVID – EMERGING OPPORTUNITIES & RISKS TO FOUR DECADES OF PROGRESS

Dr Leora Klapper, Lead Economist, Development Research Group, World Bank *in conversation with* Dr Pawan Bakhshi, India Lead – Financial Services for the Poor, BMGF

The Global Findex database is the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk. Launched with funding from the Bill & Melinda Gates Foundation, the database has been published every three years since 2011. The data are collected through nationally representative surveys in over 150 countries collecting data of more than 150,000 adults. The data is complemented through supply and consumption side data that makes it more comprehensive. The data is collected every three years and this time there is special focus on digital transaction how payments are received and what are spending trends on digital platform.

Not having access to formal channel for financial transactions like bank account or a mobile wallet or being a non-banked person actually brings in more inequality. Poor persons, women or underprivileged persons are more likely to not have a bank account. As per 2017 findex 1.7 billion adults remain unbanked and many adults with bank accounts don't use their bank account. Being unbanked puts a person in situation where they don't save money for future or have access to different financial services and government supports like grants or pension. To reduce the global poverty one of the crucial intervention required is to help them manage their money and fin-techs have made it possible to reach the unbanked by reducing cost of banking and financial transactions.

India's performance is special considering sheer size of country, governments commitment to provide banking services to all, digitised KYC in form of AADAHAR, Jan Dhan Yojna, mobile banking. JDY not only increased the banking population it also reduced the gender gaps in banked population with 20% points difference in 2014 to 6% in 2020. Still in terms of bank account utilization the difference is still in double digits. There are some challenges as India had highest % of non-operational bank accounts in 2017. This is actually an opportunity to design and offer products suitable to people.

Fintech have potential to provide access to yet unbanked population. The cost of digital financial services are very low as compared to traditional banking services and this makes them very much attractive means of transaction for poor and underprivileged population. Fintech also enables to reduce poverty by providing people access to financial tools and liberty of using money as more choices are available. Digital transaction also helps in reduction of corruption and wastage of government resources.

Digital transaction also helps in creating records which can be used in assessing credit worthiness and makes it easier for financial institutions to lend to them. These alternate credit scoring mechanism are specifically useful in the cases where there is no formal financial records of income or collateral. New digital financial tools in hands of poor and underprivileged also brings in various risks of frauds and all stakeholders need to work on front of increasing security as well as increasing awareness among their clients. Interoperability of accounts is very crucial to increase the digital utilization of accounts and without it cash transaction will be preferred.

Covid actually have increased the need as well as desire of both government as well as population for being in financial systems and going digital. This is an opportunity for government, banks, financial institutions and Fintechs to collaborate and provide the required push to reach out to last of unbanked. There is also need to reduce the cost of on boarding and transaction, enhancing the infrastructures and access points and most importantly trust among people that these systems are safe. To reduce gender gaps in financial inclusion the most important thing to do is to understand the problem and for that the gender disaggregation data need to be collected and analysed for making policy updated. Another element which could help in reducing the gender gaps is access to financial services is to have women in service providers role as loan officer or person opening account among others to enhance the confidence of women clients.

KEY TAKEAWAYS

- **Access to banking services is crucial element to reduce poverty globally.**
- **Financial products and services need to be designed which will cater specifically those who's bank accounts are non-operational and people who are still unbanked.**
- **Digital financial literacy is key to create confidence among unbanked and will help in increasing banked population.**
- **Financial institutions need to work on alternate credit scoring mechanism for assessing credit worthiness of people from in-formal sectors.**
- **There are lots of scope for enhancing inclusion with fin-tech's and policy makers and investor need to work for creating necessary infrastructures and conducive polies for them to reach out.**
- **Fintech's and financial institutions need to work on coverage of various risks associated with increasing pace of digital financial transactions.**

PLENARY 4 SPECIAL FIRESIDE CHAT

EXCLUSIVE FIRESIDE CHAT – FUTURE OF BANKING IN INDIA

Aditya Puri, Former Managing Director, HDFC Bank *in conversation with* **Tamal Bandyopadhyay, Consulting Editor, Business Standard**

The changes that have happened in terms of telecommunication, Artificial Intelligence, cloud computing, social mobility and a large portion of population being digitally native have given an opportunity to use these advances in the manner that you can provide better products to customer through segmentation and based on analysis of data generated, and at the same time reduce the cost of delivery. Fintech are doing just that and instead of inventing the wheel they are building their system and services based on existing services and data and creating products and services through the use of application processing interfaces and providing more convenient, friction less and faster turnaround service to customer.

With so much information flows around the differentiating factors of companies blurs and the power moves to the customer, also limitation and boundaries are removed. All of these further leads to tremendous amount of automation which in-turn removes the bureaucratic hurdles for access to services and products. All these movements leaves you no option but to change. The adoption of technology is much slower than adoption and technology and you have to provide frictionless and convenient access points. There will be changes required for banks to adopt the various changes in environment and with options available to clients he is going to be the king.

There will be lots of collaborations an partnership between different service providers and consumer goods providers and all of them provide collaborate and provide single transaction experience to customer.

There is going to be a collaboration between tech-fins and banks and tech-fins would be using infrastructure given by banks and NPCI. There is need for fair and equitable understanding who is investing the money and who should be remunerated for providing services. OTT platforms like google-pay and others are making losses even with banks not charging. Challenges with OTT platform is how will the monetize their services and for banks challenge is to provide frictionless services to match what amazon or google pay can do at the same price. Fin-techs or tech-fins need to understand what is their core area and do they want to expand to areas of banks in which case they would come under regulators and will have different sets of compliances, increasing costs. Things are going to move forward and these issues will be resolved most probably with the help of lessons that success and failure are going to teach them. There will be collaboration but some issues need to be resolved like what will be services provided and how will the revenue be shared and who will be responsible for which regulations.

Banks are sitting on vast amount of data and to keep pace with changing scenario they need to change and convert these data into usable information and offer products and services based on these. There is lots of scope and gaps which banks are working on.

Many banks are now digital and all the services can be accessed digitally and they also provide convenience of physical branch if people need it. There is no need of a new fully digital bank in India. Among public sector banks some banks are transforming very well or moving in right direction. Government strategy should be to look at various possibilities with banks for improving their performance. Public sector banks need to do much more otherwise they will loose their market share much faster than what they lost in last two decades. Indian banking system is in good shape today with NPAs matching global trends and CAR of even public sector banks above the regulatory norms. There is scope of change but that is gradually coming. Banks have enough money to support the need of country. Going forward banks will meet the needs but they need to work on problem of NPAs which can be solved reasonably quickly with 75% provisioning and you have basic assets.

To move forward banks and regulator both need to move from collateral based lending to cash-flow based lending as the whole world is moving towards. This will increase credit flow to small and medium level settlements where historically credit flow is always an issue. Strong public sector banks are need of country as they account for 65% of total business.

Banking licenses to corporates could be given provided they have good ethics and very strong regulations which technology allows. They are good options to choose if we want to achieve our six trillion economy.

Remedial units in the banks with clear targets and reporting to management with collowboratio with other banks is better way to resolve the issue than having a bad bank for which there are no precedents in the country and it will have a learning curve of its own without and surety of resolving issues. Also required will be coordination between Ministry of finance and RBI to resolve the issues at much faster pace.

KEY TAKEAWAYS

- **Technology should enable lower costs of reach to customer as well as better services and banks should focus on how to implement better solutions for customers.**
- **Fin-tech companies need to understand that it is banks infrastructure which is enabling financial transaction and other financial services and revenue sharing should be on utilization basis.**
- **Banks are sitting on enormous load of data and it can be utilized for providing better and customized services as well as in decision making for credit to customer.**
- **Regulators, policy makers and banks need to understand value of digital information and move towards cash-flow based lending from collateral based lending to reach out to underserved segments of country.**
- **Public sector banks to mover faster to catch up with digital revolution the financial sector is seeing to remain relevant in longer run.**

ADDRESS K M NANAIAH, MD & INDIA COUNTRY LEADER, EQUIFAX

Micro enterprises and the micro loans are very critical for the growth of economy and for a quicker recovery there has been a lot of physical stimulus programs by government of India to enable access to credit for micro enterprises in the country.

GDP was on a growth path till the Q4 2020 and as the pandemic hit, the lockdown came into play and GDP took an impact and came down significantly. June end was the stoppage of the decline when GDP starts to recover. As the GDP took a hit the loan disbursements came down naturally. There was a little bit of a weakness on the business loan disbursement pre COVID as well. The disbursement didn't recover to the extent that GDP has recovered. The credit take-off is very important for the recovery of economy. The bank credit is a very good indicator and very critical for economic recovery as well.

The loans to the micro segment has improved and it's in line with economic recovery which was broadly due to significant interventions by government of India in terms of emergency credit line guarantee schemes and various other schemes. The biggest loan taker segment is semi urban, under microenterprise segment, as it is easier and cost effective to establish micro-enterprises in semi-urban space. Having microenterprise outside the urban cities or in semi-urban cities gives them access to the markets of urban cities which is very important for micro enterprises.

Urban disbursements have not been as good as the semi urban and rural from a recovery standpoint. The disbursements from a value standpoint hasn't recovered significantly well. Decline in disbursement from a value point is kind of arrested and started to look better towards September and shown improvement in third quarter of FY 2020.

More than 90% of total disbursement have been in sub 20,000 bracket reinforcing the analysis that small ticket loans under MSME have shown much better recovery confirming positive impact of stimulus announce by government.

Commercial loans also have shown similar trends in recovery with number of accounts approaching normal but sanction amounts is reduced. The number of small ticket loans on commercial side are also increasing whereas total sanction amount is showing flatter growth. Comparative data with SME shows the small ticket micro enterprise loans are showing the recovery.

The number of loan dispersed for micro enterprises are showing a similar trend as the business loan. Trend for number of sanction has recovered along with GDP but sanctioned value has failed to keep pace with that. Post lockdown MSME loans are the small ticket loans are on growth path but there's a decline in average sanction amount.

Equifax have launched a platform which enables a lending institution to connect to the platform, do the entire end-to-end digital journey and get a decision out. With this platform FIs really don't have to build a digital backbone to do a digital lending.
The whole credit decisioning process is taking a fresh look at consumer behaviour of doing transaction and taking credit means not only the current data of the of the borrower is looked at but the historical data of the borrower as well for the 360 degree view of the board.

Equifax launched a risk score which takes into seven years past data to build longer term view to enable credit institutions to make more informed decisions based on historical data of the borrower. This also provides 360 degree view of the borrower. the coming of account aggregator some of these are becoming the reality in terms of being able to bring both asset and liability information together to provide a 360 degree view of of the of the borrower.

SPECIAL
FIRESIDE CHAT

FIRE SIDE CHAT – TECH FOR INCLUSION

Mike Froman, Vice Chairman & President, Strategic Growth, Mastercard in conversation with Dr Shamika Ravi, Director of Research, Brookings India

In an emerging economy like India micro small and medium enterprises and MSME sector on the whole has tremendous potential to drive growth and employment and catalyse socio-economic transformation of the country. Due to global pandemic every economy is going through massive exogenous shock.

MSME sector is the largest employer outside of agriculture. To safeguard livelihood and to make sure that there is some degree of consumption smoothing, the initial set of interventions from the government of India as well as many of state governments in country were more humanitarian in nature. Subsequently the focus has turned towards MSMEs. A lot of the policies have been of the nature which eases liquidity constraints for a lot of these firms, but the demand side of it is also an equally big problem. Lot of the early transfers have really resulted in higher precautionary savings they have not really led to an expansion of the demand which was perhaps anticipated.

For last few years India has been working on last mile connectivity for financial inclusion through JAM trinity and still lot more to do to bring every-one on board specifically MSMEs. It is universal fact that small businesses and micro businesses are the backbones of the economy they are the drivers of growth and employment and they form a key part of the social fabric of every country. The challenges of small businesses micro and small businesses around getting paid, getting credit, and getting digital. This crisis has underscored the importance of all three to their ability to survive and to thrive under severe stress. MSME sector have indicated to have certain degree of optimism and resilience in the sector in surveys during initial days of pandemic.

Technology can really address some of these historic challenges at the MSME sector has had but have limitation due to access factor. Policy makers and private companies can take this as opportunity to address issues of technological reach to unserved segment of MSME sector. Technology can play role for easing financial transaction, create enabling environment for credit.

This crisis have really put all the institutions to the test about how to modernize, how to use technology more effectively to serve that last mile of micro and small enterprises. Trust is absolutely critical and there isn't a lot of trust in the digital economy and it's important to demonstrate that.

As more and more goes digital and particularly with the advent of 5g, the prevalence of data is just going to explode, that means the vulnerability to cyber intrusion is also going to increase and it's really important to have visibility into the nature of cyber-attacks. There are ways of protecting individual privacy while maintaining the benefits of an open digital economy.

COVID pandemic have augmented the need of financial and digital inclusion. Digitization and access to technology has way more impact on people's lives and businesses and the community as a whole than we anticipate. Insurance is very important financial service for bottom of pyramid for financial security as well as to ensure future cash flow at the non-working age and to ensure that they have access to health services. Looking at the size of bottom of pyramid and advent of technology which have reduced cost of delivery it make as very good business case as well. There are lots of interest by private players in this field.

KEY TAKEAWAYS

- **Policymakers can take this pandemic as opportunity to ensure that inclusion enabling technology is accessible to all players in MSME sector.**
- **Digitizing the whole supply chain transaction is very important to create transaction history and help in deciding credit worthiness of MSMEs.**
- **Government has critical role of creating policy framework and regulating financial Institutions utilization of technology.**
- **Customer awareness and protection is crucial to build trust over digital platform and all stakeholders including government, policy makers, FIs have role to play.**
- **All financial service providers need to put customer data protection at core of their functioning.**
- **Governments should be wary of picking winners and losers and instead they should be focused on creating a level playing field where innovation and competition are within regulatory constraints.**
- **Cyber security is paramount and to design systems and policies that are less likely to put vast amounts of data particularly biometric data at risk and instead allow distributed systems that are safe.**

DIGITIZING SMALL BUSINESSES: PATHWAY FOR IMPROVED ACCESS TO CREDIT

Moderator – Santanu Mukherjee, Regional Program Manager - Asia, ACCION

Speakers –

- Nitin Chugh, CEO & MD, Ujjivan SFB
- Gowri Thyagarajan Mukherjee, Co-Founder, Credit Mantri
- Rahul Mallick, CEO Fintech Business, Stellapps
- Sanjay Jain, Partner, Bharat Innovation Fund

Micro enterprises are the back bone of Indian economy and account for over 99% of the total MSMEs in the country. According to SIDBI MSME pulse report, the credit exposure of less that Rs 1M ticket size account for a mere 1.4% of the total commercial lending in the country. One of the reasons for this is invisibility of customers. Only a few from who apply for loan gets approval and those few gets loan from multiple entities. Remaining customers who are credit worthy but didn't get approval for loan are basically those who are invisible to system due to lack of digital presence in form of credit history or may be lack of proof of income due to absence on banking/ FI platform.

While micro-enterprises are extremely vulnerable to the disruptions created by the pandemic, before the pandemic as well, micro-enterprises were braving the challenge of lack of access to formal financial services in general and lack of credit in particular. The current credit gap in the MSME segment is estimated at about Rs 25 Trillion and this unmet credit demand has led to such entities very often been referred to as the "missing middle".

Over the last 5 years India has become one of the fastest growing digital economies in the world. Between 2015-16 and 2019-20, digital payments volume has grown at a compounded annual growth rate of 55.1% and the barriers and mind set for accepting digital payments have significantly reduced with the introduction of India Stack / UPI. However, existing high touch lending processes and absence of reliable data coupled with information asymmetry especially at the lower end of the micro enterprise segment, who mostly are below the level of formalization, continue to make the unit economics of the small ticket loans unviable for lenders. The market is very big and attractive to lots of entities who are trying to get into the pie but couldn't scale up to be profitable. This is where partnership with entities with different expertise would make a good business case.

Even if somebody is not buying online or doing upi transaction there is enough information across traditional data sources between institutional data, user declared data, could be sms data, app usage data or statutory data that can be used. the paradigm shift the fact that historically the credit bureaus or banks were used to working with data through a centralized format so all banks gave data to the bureau and bureaus were comfortable with data being centralized. The concept of federated data from multiple sources coming together to create a credit profile really the paradigm shift in the way that data is looked from single point outwards and other being customer is looked through data from multiple sources to create the credit profile.

Various business entities have been proving that the data from alternate sources is almost as good as credit bureau data and credit decisions could be made with enough certainty of credit worthiness.

Data ownership and right to use of data is matter of utmost importance. Customer is owner of data and agency which have taken consent can utilize data. There could be issues of conflict for these and should be resolved or clearly addressed before start of any business relationship. As a owner of data customer should have rights on extent, timing and purpose of data utilization and stakeholders are working towards this goal.

KEY TAKEAWAYS

- **Small businesses makes a very large market but there are gaps which need to be filled so that they become more accessible.**
- **Players with expertise in creating digital footprints of small businesses like account aggregators would probably be first movers in this segment to open pathway to improve access.**
- **Partnership of financial institutions with data generators and aggregators is crucial to access this market segment for credit.**
- **Financial institutions need to gradually develop systems to assess credit worthiness of client on basis of alternate data or alternatively they can work with agencies functioning in this area.**
- **Data ownership and right to utilize should be resolved before data is passed on between entities.**
- **Data security and integrity are two crucial elements on which all stakeholders need to ensure that there are no gaps.**

BUILDING FINANCIAL RESILIENCE OF SMALL BUSINESSES POST PANDEMIC: NAVIGATING THE RECOVERY PATH

Moderator – Arvind Mayaram, Principal Economic Advisor, Government of Rajasthan

Speakers –

- Devendra Kumar Singh, Additional Secretary & Development Commissioner, MoMSME
- Arup Kumar, General Manager, SIDBI
- Nikunj Oli, Regional Manager- Asia, Blue Orchard
- Rajiv Chawla, Chairman, IamSMEofIndia
- Sumita Ghose, Founder & Managing Director, Rangsutra

Micro and Small Enterprises (MSE) are extremely vulnerable to the disruptions created by the pandemic. Before the pandemic as well, MSEs as a segment was braving the challenge of lack of access to formal financial services in general and lack of credit in particular. With the pandemic and lockdown striking them hard, MSEs were struggling to stay afloat with dwindling cash reserves, zero revenues, recurrent expenses, depleting stock levels, and almost non-existent credit support. The fragility of their financial and operational health was more pronounced and exposed, post-COVID. With COVID-19 bringing transportation, mandis, and market demand to a standstill, loss of livelihoods, income irregularity and uncertainty were realities for this large unorganized and informal sector. It has led to increase in financial stress, burden and insecurity of low income households and communities. The pandemic has vividly pronounced the glaring need for building and strengthening the financial and economic resilience of the micro and small enterprises especially in the informal sector.

The reclassification of MSME have provided better support from various government schemes to many industries. Without their being in MSME their growth was horizontal and that was not good for any economy. With new classification vertical growth is possible and that would move the economy in positive direction as there would be incentive to grow vertically. The concern for crowding the micros segment with lesser opportunities for smaller entities in each of segments is there but government and regulator are keeping eye on this and there are some incentives/ disincentives to control that and also there are more schemes reaching out to specifically lower segment on micro enterprises category. The concerns about crowding will remain as bankers will be more comfortable with larger entities among categories as they will have better appearing books having large account size.

One of the areas of concern is missing middle, loans from Rs. 50,000 to Rs. 10 Lakh which is not catered by by MFI who lend up-to Rs. 50000 and other part above Rs. 10Lakh catered by NBFCs and banks. This missing middle segment is also where most of transitions takes place of enterprises emerging from informal setup to formal enterprise setup where there is lots of changes and efforts are required. This transition also brings in factor of surprise for both clients as well as financial institutes.

There are historical challenges which MSME sector have faced like collateral requirements for which various initiatives are taken by government and many challenges are being addressed. There are lot more need to be done and all stakeholders - government, policy makers, regulators, financial institutions, Fin-techs, industry bodies as well as entrepreneurs need to work together to reach to solutions and take the sector forward. Various schemes have been started for missing middle segment and it will need some time before their impact is visible.

There are credit policies and products covering majority of requirements of MSME but there are some needs which falls out of regular products requirements. Regulators and financial institutes should work out with industry bodies to bring custom built financial products.

As a stroke of relief, the government has opened up markets and businesses and announced a slew of fiscal measures targeted for the MSME sector. The stimulus package of INR 20 Lakh Crores to tackle the economic fallout of COVID-19 and to revive the Indian MSMEs was much timely. While there was phased and restricted capital infusion to the sector, it also exposed many blind spots and highlighted the need for improving collective preparedness of various players for ensuring the micro-enterprise sector rebuilds itself.

KEY TAKEAWAYS

- **Rural microenterprises need support in form of conducive infrastructures where artisans specifically women can work in relatively comfortable and competitive environment.**
- **There are lots of scheme supporting MSME and efforts are required from all stakeholders so that these schemes reach the lower strata of micro enterprises sector.**
- **The missing middle segment of credit bandwidth need more support for transition from microfinance and informal lenders to banks and NBFCs.**
- **FI, policy maker and industry bodies should work towards product development for specific needs which are not covered in regular credit products.**
- **Financial institutions need to increase their risk appetite to reach out to left out lower segments of enterprises which have lower credit flow despite increased credit flow towards banks and availability of credit guarantee schemes.**
- **International financial institutes play an important role in supply of credit to MSME and DFIs, their subsidiaries and regulators need to interact with them for their concerns and their inputs.**

TRACK: RESPONSIBLE DIGITAL FINANCE

KEYNOTE TALK GRETA BULL, CEO, CGAP

This is exciting time for inclusive finance as digital technology and new business models are completely changing our ability to reach poor and excluded households with financial services. Due to COVID-19, world is changing the ways to work, study, buy, sell and access services. India has been at the forefront of this fintech revolution with a unique public private model that's propelled it into the vanguard of finance and technology not only has India been a world leader in building digital ID, a world-class payment system, a large and successful microfinance industry and a thriving e-commerce sector. It's done all of this with an eye to inclusion and ensuring a competitive landscape. There's much to applaud in what India has done to increase economic and financial inclusion as indicated by data. I've spent the last 10 years working on building interoperable retail payment systems in emerging markets and nothing compares with what India has achieved with UPI in a few short years.

India still has more work to do like the nagging concerns about how accessible the banking and payments infrastructure is for poor households more generally, once the crisis is passed will they use these new high-tech systems, there is issue of dormant accounts and usage of accounts, lack of products for poor etc.

The fact that service providers can create very robust businesses reaching the top 20 of India's population which is an addressable market roughly the size of brazil the attractiveness of poorer segments drops off quickly without explicit government intervention. India is cash economy and poor are likely to lack access to the internet. Relative lack of cash in cash out agents in the country which in other markets have been a crucial interface for poor people between the cash and digital economies is a big concern and need focused intervention.

There is also important questions about the potential for harm from digital finance with risk of credit overburden, exorbitant interests and frauds, risks of exclusion of people without digital access. Stakeholders like governments, financial institutions, regulators, advocacy groups need to focus on ways to enhance inclusion keeping various factors like digital devide, accessibility and risks in mind.

KEY TAKEAWAYS

- We need to find ways to link the digital and the analog with policies aimed at providing people with access to cash in cash out points smartphones affordable data and bank accounts as increasing parts of the economy move online.
- We have to make sure that the digital divide does not grow.
- We have to continually anticipate the risks that digital brings and be prepared to look for them in unexpected places and put in place quick response system to counter those risks.
- There is need to promote and include consumer advocacy groups in regulatory advisory bodies so that their views are represented.
- Regulators need to take a proactive customer-centric approach requiring providers to report on how and whether customers have choice, whether service terms and conditions are clear, and that adequate recourse mechanisms are in place.
- Government need to be wary while pushing the digitization agenda especially focused on the poor.

TECHNICAL SESSIONS 9

RESPONSIBLE DIGITAL FINANCE: EXPECTATIONS AND BARRIERS AT THE LAST MILE

Lead Presenter & Moderator – Beni Chugh, Research Manager, DVARA Research

Speakers –

- Abhishek Sinha, Co-founder, Eko India Financial Services
- Prof Rajendran Narayanan, Assistant Professor, Azim Premji University
- Sandeep Koujalgi, Vice President, Bharat Inclusion Initiative, CIIE.CO

The Journey of digital finance in India has been marked with many bright milestones like in October 2020 UPI crossed one billion transaction marks. Digital lending is expanding and it accounts for about 40% in and about 18% in terms of value terms of volumes for all personal loans disbursed in the country. New age NBFCs and fin-tech lenders are leading the group when it comes to serving new to credit customers. At the same time there are some disquieting attributes of this expansion. For instance significant portion of population is still not aware about utility of digital data and information that they have, and also have low understanding of risks associated with digital data and move between being highly vulnerable to frauds to not divulging data even when it is safe to do so. There is also fear of grievances handling as they can't see whom they are dealing with.

Keeping customer in focus while developing policy and products, marketing and customer education strategy and implementing digital finance technology is the key to ensure that the objectives of digital finance are met. The three dimensions of customers financial life where she deals with gaps in her income, or she needs to ensure continuity of her lifestyles or when she needs to handle what-ifs of her life need to be understood before designing and offering products defines responsible digital finance.

There are various schemes where benefits are directly transferred to customers banks account both by state and central government. These are digitally transferred as DBT. The nomenclature of these benefits are crucial for responsible digital finance as customer should recognize these and entitlements and not doles as these things are happening due to constitutional provisions of right to live with dignity and equality. Another aspect is that digital solutions generally inclined towards efficiency and they focus on reducing inclusion errors from technological perspective whereas if you look at peoples perspective focus should be on reducing exclusion perspective. The digital financial system should not take away bargaining power of customer.

Digital systems are different from physical systems in the manner that they were let out once a working model is there and then allow it to improve on basis of learnings. This increases chances that some of the eligible are excluded and to reduce that error alternate systems can be put in place or continued if they already exist till digital systems are perfected.

Technological evolution in digital finance vertical in last few years is incredible but there is always chances of improvements in any system specially something which is new and when you are dealing with very humongous population. And identification of issues and problems should not be considered as being negative about the system instead it should be taken as criticism to make it better.

Digital financial systems like AEPS are very good options of reducing leakages and delays but there are issues of payment rejection due to various reasons. And once a payment is rejected all subsequent payments are rejected and being a digital platform lower strata of executing agencies are not aware about processes to resolve them. The system to resolution of such problems are crucial to reduce exclusions and delays.

There is always opportunity to be agile and when it comes to resolving issues with technology. It is expected that when a technology is brought out and implemented there are always challenges and important thing is to be proactive and responsive instead of being too confident.

The mechanism to take feedback from last mile is not very effective and implementing that would improve customer confidence in system tremendously.It is possible that large scale rollout of digital solution may not work and create issues which may not be resolved at faster pace therefore rolling out in small scale on trial basis is very important.

The main segment which gets impacted by exclusion is women and poor because system is not designed keeping in their needs in mind and they are the one most efforts should be focused.

Technology is definitely an enabler of inclusion but all stakeholder should understand that ultimate objective is inclusion and not the technology. The grievance redressal mechanism should be strong enough that the last person standing should not feel that system is unfair to her. There are social issues like women empowerment which could not be addressed by technology alone as instruments of inclusion could be controlled by men in the family.

KEY TAKEAWAYS

- **One of the key mistakes that digital financial service providers make is to put technology in forefront and that creates imperfections in the system. It is very crucial that customer is kept in focus for all such technological developments.**
- **Nomenclature of DBTs should be such that receiver recognizes them as entitlement instead of dole.**
- **Focus should be on peoples perspective of reducing exclusion errors instead of on technical perspective of reducing inclusion errors.**
- **Financial systems specifically for DBTs should be designed such that it is human centered as well as it should enable democratic participants better at grassroots.**
- **To reduce exclusion from technology solution it may be a good idea to have alternate channels till the time cracks of digital financial system are cured.**
- **Learning curve is part of technological systems and for that criticism should be considered positively for improving the system.**
- **Policy makers, and executing agencies should focus on speedy resolution of errors produced in the system so that exclusion errors and delays of DBT should be reduced.**
- **Technology Audit for digital architecture need to be in place with multiple kinds of people being part of the process.**
- **There is scope for implementing automated system of grievance redressal specifically if error is generated by financial system whenever possible. Error resolution mechanism should be strong to increase confidence level of customer.**
- **Grievance redressal should be made strong so that each and every customer feels safe with the system and don't suffer due to system's incompetence.**
- **The Bhilwara principal of " access to relevant information – Right to be heard –Time bound grievance redress – Protection – participation – public platform" could be a good model for responsible digital finance**

TECHNICAL SESSIONS 10

BEST PRACTICES IN RESPONSIBLE DIGITAL FINANCIAL SERVICES: PRACTITIONER PERSPECTIVES

Moderator – Manoj Kumar Sharma, Director, MicroSave Consulting

Speakers –

- J Venkatramu, CEO, India Post Payment Bank (IPPB)
- R Mohan, Chief Innovation Officer, FIA
- Rahul Gupta, CEO, Avanti Finance
- Radhika Tamvada, Head –Product for Wealth, PhonePe

The digital financial services ecosystem is vast, fast-growing, and ever-changing. Technological innovation is enabling financial service providers (FSPs) to increase their outreach enormously through the provision of digital financial services (DFS). The growth and potential of digital financial services for the underbanked has generated significant enthusiasm from financial sector stakeholders, including development economists. The positive implications for increased financial inclusion through DFS are tempered, however, by the potential risks to client protection.

In a rapidly evolving sector, it is no surprise that there has so far been relatively little discussion or consensus-building on emerging consumer harms, exclusion barriers and risks these new services and business models may create. However, this is beginning to change. There is growing recognition that with increase in outreach, digital financial services can pose significant risks to clients.

Much like with traditional finance, the quality of digital financial service delivery and experience largely depends on its provider. It requires for conscious and careful designing of product, sourcing and distribution channel and overall customer experience in the part of practitioners to ensure client protection from a wide variety of risks – spanning from fraud, security etc to trust issues among clients.

There are various options available with clients for accessing financial services still percentage of client reaching bank branches for services which are available elsewhere too are significantly higher. BC agent network, ATMs , post-offices have vast capacity and potential to provide financial services and if financial services traffic is streamlined and moved towards them all stakeholders will be benefited. Getting customers to do transactions are most important step towards moving this traffic from banks to alternate digital channels. First it creates an awakening that this is possible and second when they need it second time and further they know they can use this channel as well.

Access to credit is also a important aspect which can bring customers to use these alternate channels and small value loans to DBT beneficiaries could be one good starting for new to system clients.

There are some unique challenges to digital financial inclusion. 500-600 million people don't have access to formal credit. There are only 300-350 million unique users of smart phones. There are Lots of digital financial services products and providers are basically serving only the same 100 million users. Reimagining of products as well as delivery mechanism is required to reach to left out population.

In digital financial services sector lots of product and services, innovation is happening and they are providing insight into customer preferences and requirement. It is important that stakeholders learn from that to improve customers experiences and better products and services.

Client protection is very important to keep the faith of customer. Only a mishap can trigger a havoc on any digital financial service. Entities need to work proactively to minimize risks involved. Client education is also important as it increases clients awareness and confidence about products and services and also reduces chances of frauds.

Digital financial services are a fast paced evolution happening for all stakeholders from customers to regulators/policy makers. There have been lots of things that the DFS have achieved and and now available to customers which they didn't imagine a little while back. All these fast paced changes brings in lots of challenges for all the stakeholders. One of the key things that all should remembers is that customer is the reason why everything exist and a continuous feedback loop should work to improve their experience. This feedback loop is critically important when a promised service don't deliver and customer is stuck in a transaction. The extra mile service provider should go to ensure that the grievances of customer are dealt with highest priority.

KEY TAKEAWAYS

- **Small value credit to new customers can prove to be a turning point for acceptability of alternate channels of digital financial services.**
- **There are lots of players who are serving and competing for top 100 million customers. Real challenge is to reach out to next 500-600 million clients who are not served at all or not served as per their requirement. Lots of innovation, focus and movement is required in this direction.**
- **There are products beyond saving and credit which needs to be offered to DFS users and innovations and efforts are required in that direction.**
- **It is crucial that user experience on digital platform is least invasive or obtrusive. Innovations which will ensure this will be accepted in much faster pace than others.**
- **All stakeholders from policy makers to last mile delivery channel needs to collaborate and work for least friction during process and ensure that major points of hurdles and blockages are dealt in minimal fashion to improve client experience.**
- **Client awareness programs should be the focus area for all stakeholders as it increases confidence of customer and reduces possibilities of fraud with customer.**
- **Digital finance apps need to work on adopting the interface to match with understanding of the targeted client.**

TECHNICAL SESSIONS 11

DIGITALIZATION IN LENDING – ANALYZING SOCIAL AND BUSINESS IMPACT

Moderator – Sucharita Mukherjee, CEO, Kaleidofin

Lead Presentation – Vipul Jain, Head of Products, CRIF High Mark

Speakers –

- Wilfred Sigler, Director, Sales & Marketing, CRIF India
- Ajay Sahasrabuddhe, Chief Operating Officer, Retail Finance, Hero FinCorp
- Ranjan Das, Chief Risk Officer, Arohan Financial Services
- *Vishal Wadhwa*, Executive Vice President - Fullerton India Credit Company Ltd.

The finance industry is undergoing large-scale digital transformation that has widespread implications on the way institutions run their businesses and on the access to finance and the ease at the end-mile for the consumers. Technological advancements and adoption is enabling lenders to redesign and augment their workflows. This change has impacted their business at various levels (Cost of acquisition, Risk assessment, time to approval, etc.). At the same time, digitalization is driving financial inclusion beyond Tier I markets enabling more responsible underwriting backed by enhanced risk assessment capabilities, leading to greater business opportunities and healthier loan portfolios. Financial market is looking at shift in demand for retail consumer finance in rural area specially in personal loan, consumer durable loans and two wheeler loans segments. The shift is specially worth noticing in personal finance space due to disruption by fintechs and adoption of technology by existing players. These disruption are changing credit supply scenario in rural and semi-urban landscapes. Two data points for personal loan market, worth noting are more than 45% growth in rural market and growth of new borrower is more than 70%. With reduction of onboarding and transaction costs ticket sizes offered and availed are also reducing. Other vertices of credit like consumer durable loans, two wheeler loans also performed exceedingly good overall and especially in rural market. Trend for new to credit customers in rural and semi urban markets performed much better in growth terms. Pandemic have disrupted the pace of growth due to supply side constraints and consumer finance space may have to bear a little longer before completer recovery. Similar trends are observed in microfinance sector where growth is much higher than urban counterpart.

Going digital is not a choice any more for FIs as all of other players in segment are going digital. This has changed the game by reducing the onboarding costs, turnaround time and enhancing user experience the same basic objectives with which digitization started by FIs at first. The journey to go completely digital is not complete yet and may take next few years. There are some environmental constraints like regulators and availability of infrastructure in rural area and some individual institution constraints like comfort level of management, investment required for infrastructure or comfort level of clients but these constraints are diminishing at very fast pace.

Going digital have provided opportunity to go for data based underwriting model. These models provide lots of benefits and are able to assess the risk to a large extent. These models needs continuous feedback to assess performance and to update for any changes in environmental factor. Data based underwriting reduces chances of opinion based errors. Data based underwriting model is also able to provide region / location specific underwriting which was not possible earlier. Also it is a continuous learning model as each of data point created when a decision is made on the basis of model it is goes into database to work as base for next underwriting decision. So each of these data based underwriting models are evolving and getting better with each new data points.

The social impact of digital finance is a journey which is going on and each of JLG customers are getting their credit history updated. The economy of scale prohibit MFIs to convert these to individual customers but digital solutions is making it feasible. It is a journey which got accelerated by digital evolution. Fintech firms have brought in lots of new tools and processes to sector and traditional FIs are adopting many of those tools. There are few aspects of businesses on which solutions brought in by Fintechs are very good but they have to learn a lot specially in collection / repayment side on which traditional FI are very confident with their experiences.

KEY TAKEAWAYS

- **Data based underwriting models are evolving and continuous monitoring and feedback loop is very important to stay on track of risk reduction.**
- **One thing to keep in mind while adopting digital solutions is that they are means to customer service and not the final objective. Customer should be point of focus in the business.**
- **Ticket size in MFI business is increasing and gradually FIs need to change assessment from group to individual, many players have already started this.**
- **Regulation should be based on type of business and not on type of entity. That creates lots of imbalances in playing field. Industry body and regulators need to work on this.**
- **Customer onboarding have been on focus for all digital innovation and now some energy need to be focused on data points from collections which can provide insights for future transactions and modelling based on these data points may be able to assist organization in developing their strategy.**
- **Financial literacy is very crucial to ensure client protection and all stakeholders need to play their role in ensuring that the client is aware of his options and risks involved.**

TRACK: SHG FINANCING

KEYNOTE ALKA UPADHYAYA, ADDITIONAL SECRETARY, MORD

The social capital was something in which an NRLM has been consistently and very solidly investing in and its performance is now spectacular. NRLM have covered almost 7.2 crore women, mobilized into 66 lakh SHGs. The model has demonstrated its success in India.

It's nice to be building into capacity of these women and get them into self-help group formations ,VO's and the cluster level federations but to sustain that enthusiasm you need something more in form of financial autonomy. There has to be a financial arm to this entire activity unless and until we strengthen this momentum it may also gradually lose out.

Now we are in that phase where we have to mobilize these women for better financial inclusion and thereafter take them on to an entrepreneurial journey. An entrepreneurial journey of these first generation women who are also at the bottom of the pyramid.

For all of these women to move up the there are few questions that need to be addressed, one of course is the financial inclusion and second how can they augment their livelihoods. The national rural livelihood mission will have to consolidate its efforts towards livelihood augmentation, supported by the vision of the honourable PM where he has said that we need to provide livelihood to at least one member of each of the SHG households. We are currently at one is to seven, that out of the 7.21 crore women who have been kind of mobilized one crore of our women are i have been organized in some kind of a farm or non-farm activity so it's a very tall order and we have to move quickly in that space.

These SHGs have to be given kind of confidence with capacity building which NRLM have been working on. The next important step is toward autonomy of SHGs specially when they move up the ladder towards entrepreneurship.

There have been lots of policy initiatives for financial inclusion but most critical of those are Swabhiman in 2001 by Indian banking association that opened up banks for inclusion and the game changing initiative of PMJDY which bogged down banks with account opening work by paid for the efforts. The DBT transfers to these accounts and most recently ex-gracia payments due to COVID where women PMJDY accounts credited with one click are some of the show-case success of financial inclusion initiatives in the country.

The amount of bank credit access by SHGs has seen a great improvement, in the year 2013-14 we were at USD 3.1 billion and today in 2019-20 figures we are at USD 9.5 billion. It has seen a very dramatic increase and that's a very healthy sign. The credit given to these SHGs is very gainfully employed in livelihood, education and other critical aspects of their lives. We need to follow this up even further and see that the amount of the money which has gone into the bank accounts is used for sustainable livelihood purposes. The self-help group federations are taking assigned activities very seriously, whom to give the money and what to be given for and the entire bookkeeping and record keeping has been very well strengthened and streamlined.

The first generation SHG members who have no bank history or credit history so to say or even if they have a credit history it is of a very small volume now if they are able to move forward in the entrepreneurial aspirations if they are to move forward we need to make them available a couple of things

We need to focus on working capital, which is not easily available to women entrepreneurs. We need to lobby with the RBI, banking institutions and IBA to create that ease of giving working capital to at least category of women who are graduating from SHG and have credit as well as financial history.

The NPAs may be little higher across the region in certain states, there is a constant effort by the federations to bring this NPA down and we are committed to this. It is only because of this bankers have a certain amount of ease in lending to our SHG federations. The challenge that need working is to make our VOs and CLFs bankable. The entire aspect of enterprise financing is very important we have been working very closely with all the partners the state governments, SRLMs, NABARD and banking institutions for this.

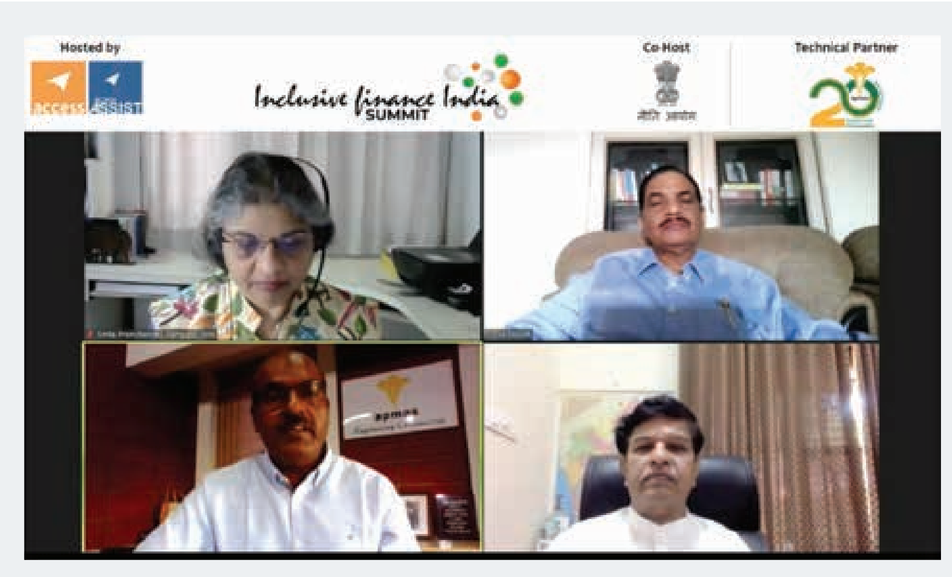
The entire transition from capacity building, confidence building, organizing has now to shift towards financial inclusion, towards enterprise development and ultimately to women empowerment which has to come to the fore.

Women entrepreneurial development needs a special focus various things have been done in the past, and many in progress. With these efforts, women entrepreneurs will be able to build their own capital and be able to get more financing. It has been a very interesting journey and a lot more has to be done. We are sure we will be able to meet the goals and collectively all of us together would be able to achieve this vision of bringing women to the fore as entrepreneurs.

KEY TAKEAWAYS

- **We need to have a very strong digital literacy campaign, which COVID has given a big and apt push.**
- **Whole lot of other products which can be made available like insurance, home loans etc., needs to be customized to match cash flow of SHG members.**
- **There is a need for increased product refinement which can be of use to these women because of the increased appetite.**
- **We need to service SHGs not only from the public sector banks but from the RRBs and other financial institutions**
- **We need to integrate the MIS and come up with products for SHGs very rapidly to meet the appetite.**

TECHNICAL SESSIONS 12



SHG BANK LINKAGE: PROGRAM & IMPACT

Moderator – C S Reddy, CEO APMAS

Speakers –

- Dr. L. H. Manjunath Executive Director, Shri Kshethra Dharmasthala Rural Development Project
- G.V.S. Reddy, Managing Director, Stree Nidhi
- Dr Smita Premchander, Founder, Sampark

SHG bank linkage modes has been a key to financial inclusion in the country. It has benefitted a total of 12.4 crore households by mobilizing savings to the extent of INR 26,000 crore and enabling credit flow to the tune of INR 77,000 crore to 102 lakh SHGs with a loan outstanding of INR 1 Lakh crore. The SHG model have created huge amount of social capital in fomr of community resource persons- Bank Sakhis or Bank Mitras and many others.

Women can access microfinance services through SHG and their impact are micro but very crucial for the household and have helped in improving savings and access to credit. Second aspect of SHG program impact is improvement in skill and increased participation of women in labor force can be seen. The forgotten half of microfinance – "Savings" is nearly 25% of Rs. 100 thousand crore credit provided to SHGs. This is a significant improvement from the past when deposits were asked to deposit money against which credit is provided. The improved savings have increased the credit-worthiness of SHG members. Long association with the program have improved capabilities and management skills of women SHG members. Their voice have more weightage at home and they are active participants of decision making process at home and at community level. The cohesiveness among SHG members of village have enhanced the political strength as well and many SHG leaders and members are also representing in panchayat, at village, block and district levels.

Socially the mobility and exposure have helped in enhancing their social recognition as well as political recognition. Whenever there are elections SHGs and federation becomes point of focus from political perspective in many states specially in southern India. This political recognition have increase negotiation powers of SHGs members.

There are challenges as well. Approximately 60% SHGs don't have access to Community Investment Fund(CIF), there is imbalance in credit as some SHGs have access to much higher credit as compared to others, there are challenges on capacities front as many SHGs and most of VOs don't have a book-keeper. Community cadre is a very important aspect of SHG program and only 10% have CRPs., there are many federations without livelihood committees. Federation are important for enhancing credit availability to SHGs. There are no standardization of institutional forms and different states have used different formats of institution to register federations.

Focus should be increased now on livelihood generation. More skill development programs are required. There is need to work on value chains for SHGs and federations and more importantly market linkages need to be enhanced. There are many SHGs with capacity and resources of producing quality goods but the only hurdle that they face is marketing. They are idling just because they can't sell.

Now the SHG movement have matured enough to be involved in higher level purposes and for this convergence with government institutions is required especially with Panchayat Raj institutions for government schemes as well as for rights. The issue of governmentalization of SHGs and federations is also a matter where discussion need to take place. Balance need to be maintained between governmentalization and independence of SHGs and Federations. Civil society organization and NGOs have played a very commendable role in promoting and nurturing SHG in many part of country. Many of these interventions are sustainable and relatively more agile then government run programs. Their role should be recognized as well as appropriate support should be made available to them to increase the outreach of their programs.

KEY TAKEAWAYS

- **Social capital created with SHG programs in the country is huge and all stakeholders need to work on how to utilize this social capital.**
- **There is possibility of synergy between SHG/federation and FPOs where women leadership gets active roles in FPO operations.**
- **Without federation being made stronger SHGs would be stuck with the limited credit available. There is still a huge gap between need and supply of credit and federation are important to reduce this gap.**
- **More attention is required on livelihood and skill enhancement for achieving objectives of SHG program.**
- **Value chain development is required in SHGs and federations.**
- **Focus should increase in market linkages for SHG products.**
- **NGOs have played an important role in promoting and nurturing SHGs hence required support should be provided to them.**

TECHNICAL SESSIONS 13

FINANCING CHALLENGES IN GRADUATING WOMEN SHG MEMBERS TO ENTREPRENEURS

Moderator – Girija Srinivasan

Speakers –

- Shraddha Joshi Sharma, MD, MAVIM
- Kalpana Sankar, Chairperson & Managing Trustee, Hand in Hand
- Anjani Kumar, Senior Program Officer, BMGF
- GVS Reddy, CEO, Stree Nidhi

Financing to poor and low income women in India has so far been predominantly achieved through two channels – Self Help Group bank linkage model and the MFI led Joint Liability Group approach – which have made significant contribution to bringing rural and urban women into the fold of formal finance. Both these channels continue to grow and provide cash for consumption smoothening and running home based enterprises of members.

Till March-2020 the SHG-Bank linkage program has benefitted a total of 12.4 crore households by mobilizing savings to the extent of INR 26,000 crore and enabling credit flow to the tune of INR 77,000 crore to 102 lakh SHGs with a loan outstanding of INR 1 Lakh crore. The strategic guidelines issued for SHG bank linkage program there was a clear intent that all the women members will graduate to individual lending. While undoubtedly the scale of savings and credit mobilization by SHGs and growth in credit disbursed by MFIs is noteworthy, sadly, financial institutions, both banks and MFIs, have not grown beyond lending to the proven and established framework of group based small ticket lending to women. The intent to connect individual SHG members to bank credit was lost in the long journey of SHG bank linkage, savings and livelihood promotion. The economic impact of small group based loans underwritten based on peer risk appetite rather than on assessment of an individual women's entrepreneurial ability is limited in terms of contribution of the financing on Women's Labor Force participation and improvement in income and poverty reduction.

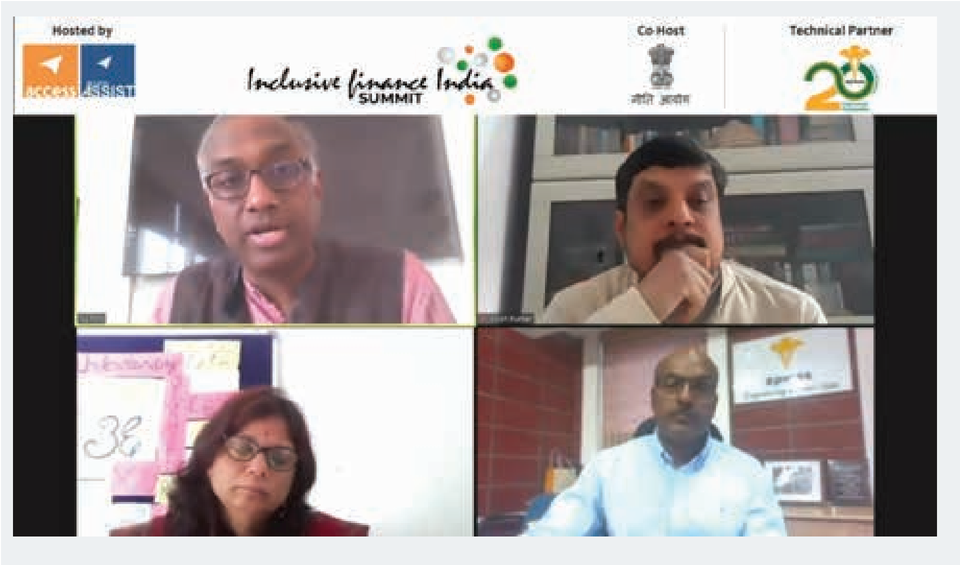
SHG programs long journey have brought forward many entrepreneurs among SHG members. There are about 20% of SHG members are entrepreneurs, this is lower in remote locations and tribal belts and higher in semi-urban spaces. These entrepreneurs are ready and eager to graduate from group based lending to individual credit. Financial Institution's intent & ability to underwrite and disburse graduated larger ticket loan to individual women as individual farmers, artisans, entrepreneurs etc. and to women collectives is yet to evolve and they clearly lagging behind in this. The gap in credit availability through banks is currently fulfilled by borrowing from multiple sources like SHG saving, SHG credit from banks, loans from federation and even from MFIs and informal sources when required. Sometimes they also borrow in the name of other shg members. This is not a optimal solution and creates issues of higher costs of borrowing, cash-flow issues and inadequate funding.

The challenge that banks face is that they don't have mechanism to utilize credit history from group loan for their individual loans. The verticals funding group loans and individual loans are different and process of moving from one vertical to another with recognition of credit history is quite peculiar. There are some initiatives from both government and FI side targeting entrepreneurs from SHGs. It will need more push and support from government and other stakeholders to ensure that SHG entrepreneurs graduate from group loans to individual loans. Challenges that bankers face are real and it is difficult for them to needs of graduating women entrepreneurs. One way around this problem is to utilize NGOs and MFIs as partners for sourcing and appraisal.

KEY TAKEAWAYS

- **There is need for financing innovation in form of blended finance, product innovation to unlock capital for women collectives and support sought from institutions like NABARD, MUDRA/SIDBI, NRLM for creating appropriate risk protection structure for mainstream commercial banks.**
- **The credit worthiness of a client, need to acknowledge and take into account credit history of the client as a member of SHG.**
- **Data submission to credit bureau for individual members of SHG by banks and financial institutions will help them while graduating from group loans to individual loans.**
- **Skill development currently focusing on employability enhancement should also focus on livelihood trainings by providing more support to RSETIs. Also for bank appraisal, trainings from RSETI could be one evaluation criteria.**
- **One of the challenges that the graduating women face is their preparedness, which is probably good for business as such but not from bankers perspective. These women need support for entrepreneurship development along with preparing business plans – financial, marketing, resources, etc. for becoming bankable.**
- **There is need of support agencies who can help women in their journey to become bankable entrepreneurs and achieve success.**
- **FLDG support to women entrepreneurs from SHG could be a great support for availing credit.**
- **Convergence between banks, MFIs and NGOs could be a very effective mechanism to provide access to finance to graduating women entrepreneurs from SHG.**

TECHNICAL SESSIONS 14



SELF-RELIANCE AND SUSTAINABILITY OF SHG FEDERATIONS

Moderator – D Narendranath, Executive Director, Pradan

Speakers –

- Anish Kumar, Lead Team, Transform Rural India
- Kalpana Pant, Executive Director, Chaitanya
- Usha Rani, Lead - IB & HR, NRLM, MORD, Government of India

SHG federations have evolved over the years and play different roles in financial inclusion and livelihood verticals. From being MFI, Community Banks, Catalyst for livelihood promotion by providing access to finance, social collateral, business correspondents, Production coordination, marketing support, aggregator, negotiator etc. federation have accepted many roles for supporting SHGs and their members. Federations have also worked as local social and political empowerment organizations. For many government schemes these are last mile delivery systems. The microfinance system have created lots of positive externalities for women in the country. These are community based organization and therefore focus is always towards community. They provide both financial and non-financial services based on need of community.

Federations are community owned entities but they need to be operated as any other business. All the required systems like audit, MIS, accounting, business planning etc. should be implemented without any exception. They are going to perform as business entity in long run and the process for that should be followed from inception. To keep the federation competitive regular rating exercise should be conducted. This would also enhance access to credit.

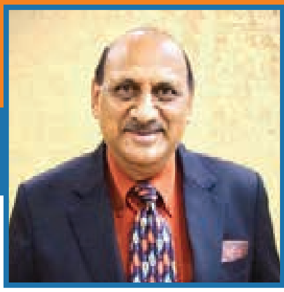
Design of federation sets the tone of sustainability of federation. The design of federation decided participation level of SHG members, SHGs, VOs and their contribution. Also decided here are objective of federation and objectives defines the sustainability of federation. It could just be for financial intermediation and sustainable by interest margin it keeps or it could have business objective which changes the process of sustainability significantly and its more toward attaining financial goals. Most of federations objectives lie in between social and commercial objectives and their sustainability should be seen with that lens only. One more critical perspective for federation is how it is perceived. Is it a supply channel or a demand system or both.

Self-financing should be the mode for Federations. Government support for salaries of team then there will be corruption, lack of accountability and lack of transparency and data may not be there. For federations to be sustainable they need both capability as well as capital. In current system capital is with the SHGs and federation don't have enough capacity their sustainability will always be dependent on grants/ support from donors. Capacity building as per evolution of these organization be it VO or federation is the key to make them sustainable in long run.

For federations to be sustainable government have to realize importance of their autonomy and independence. They being membership based organization meeting the needs and aspirations of their members other than serving the need of government and their schemes.

KEY TAKEAWAYS

- **Promotion cost need to be provided by funders along with short/ medium term running costs.**
- **Layers should be designed such that there is no conflict of interest among them.**
- **SHG – Federation need to have a very strong MIS.**
- **There is need to do collaborative thinking amongst agencies promoting federations for sharing experiences and learning from their different models.**
- **There is need of community driven self-regulatory system for SHGs and federations.**
- **An universal data driven system for SHGs and federation is required which will drive the growth and efficiency for them.**



TRACK: MICROENTERPRISE FINANCING

KEYNOTE ADDRESS

N K MAINI
FORMER DMD, SIDBI

The term missing middle was actually coined by SIDBI about one and a half decades back as loan's beyond the micro finance limit to Rs. 10 Lakh and today also the definition stands with perhaps the limit being raised to 20 lakhs. The MSME sector obviously is the key to the growth of the Indian economy. About 70 million MSMEs contribute to a third of the country's GDP and 45 percent of the manufacturing output. These enterprises also provide employment to well over 11 crore Indians besides substantial contribution to the exports of the country. MSME sector have struggled with lack of credit historically all over the world and in India. More than 80% of credit flow to this sector is through informal sector and efforts are made by government and private financial institutions to bridge the gap. The addressable gap is approximately 26 trillion INR out of which half belong to manufacturing and remaining to service sector.

The pandemic situation have impact on the earnings of MSMEs, due to a host of issues have arisen and simultaneously a huge number of livelihoods have been impacted especially for MSMEs and the informal sector. The impact obviously has been extremely adverse and going forward the road to recovery is time consuming.

There is already a well-developed infrastructure of institutions in the country catering to this sector comprising DFI like SIDBY and NABARD and various categories of financial institutions from public and private sectors who are playing their role for supporting the sector through their huge network. For any of the financial institutions willing to leverage this network on the back of the JAM trinity provides us the perfect leaver to really start serving the sector in a very big way.

There is enough surplus liquidity in the system today and appropriate support at the policy level along with this surplus liquidity can really galvanize the productive utilization of the liquidity particularly by promoting the micro and small enterprises sector. The inherent Indian spirit of entrepreneurship is very much alive and if we galvanize this liquidity provide the right policy support we could actualize the dream of make in India.

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KEY TAKEAWAYS

- We need to leverage the existing infrastructure and strengths of all the players and particularly the NBFCs who ensure the last mile connectivity.
- Comprehensive competitiveness study be carried out on the major clusters and some of the major informal clusters also to identify the gaps in the financing and other requirements and then work on those gaps.
- A separate body can be set up to promote competitiveness of clusters.
- There's a need to promote industrial estates with sheds purely on rental basis, this would also obviate the locked up productive assets when a unit becomes an NPA.
- The industrial associations need to be very substantially empowered on the lines of the associations in some of the developed countries to carry out a host of activities for their members like as a financial intermediary providing a first level check on all their members to banks and institutions who want to lend to them they aggregate the demand for common raw materials insurance etc.
- Raise the collateral free limit under the mudra loans should be raised from 10 lakhs to 20 lakh rupees as this limit came up in 2015 when mudra was set up, to cover for inflation and to match the revised definition of MSME.
- There is need to collaborate and leverage the strengths of the NBFCs, the small finance banks, the commercial banks and the PSBs loan portal to give the best to the micro enterprises.
- The receivables issue is something which the sector has been plagued with and need to be addressed with highest priority. There is scope of credit facility against receivables and some FIs are offering this. Systematic efforts are required to increase its coverage.
- E-marketplace is indeed a great initiative and needs to be replicated by more organizations in the private sector to provide such marketplaces to more and more smaller enterprises and simultaneously the need to launch virtual trade fairs and exhibitions.

PLENARY 5

SMALL FINANCE BANKS – DELIVERING ON THE FINANCIAL INCLUSION AGENDA

Moderator – Bindu Ananth, Chair, DVARA Trust

- **Rajeev Yadav, Managing Director & CEO, Fincare SFB**
- **Sanjay Agarwal, Managing Director & CEO, Au SFB**
- **K Paul Thomas, Managing Director & CEO, Esaf SFB**

It has been nearly five years to announcement by RBI that 10 entities got provisional license to convert into Small Finance Bank. The journey of these entities from getting the in principal license and working through whole conversion process and getting the final license and then launching has been quite tremendous. There were apprehensions and expectations from new form of bank. There were lots of challenges and opportunities. All the banks have worked very hard for this arduous journey and reached at current level where things are looking much brighter.

There are lots of challenges to face and lots of work to do by these SFBs and the journey have put them on pace to reach the target that they have set. One thing that all SFBs have focused on is technology as it is the main thrust which runs a banks. They are achieving one milestone after another for last 5 years and their journey have lots of learnings and lessons.
Share of rural branches of SFBs are about 20% and they are covering rural markets from other formats as well to achieve 25% of rural banking target. Many of these 20% branches are in unbanked rural centers. One more aspect is that even semi urban and some urban branches also serve rural customers. Less branches in rural area does not mean that SFBs are not rural banks. SFB don't have a business model that focus around tier 1 or tier 2 urban centers and the branches in those centers are basically focused towards liability products.

Traditional asset side customers only cover about 10% of liability side books so it is important for SFBs to have branches in those urban centers where larger deposit liabilities lies. SFBs are evolving asset products suitable for metros. SFBs look forward to get both their liability and asset products from semi-urban /rural markets in future, but it will take time. There are challenges of liability products design. Banks have traditionally offered same products in Metros and in rural areas. SFBs are working for more suitable lability products for Rural and semi urban client base. Having a high interest rate asset product have given leverage to SFBs and they were able to offer better interest rates in their liability products. This have helped them create necessary liability books in short span of time.

The banking correspondent channel for SFBs will see a significant growth along with digital channel. Micro banking customers are more comfortable with assisted mode and BC plays that role for them. There are some challenges like governing BCs which make digital channels more attractive. The digital channel on asset side which is mostly microfinance covers more than 90% of transaction for disbursement and only 10% for repayment. To increase digital transactions on payment side income side of customer need to be digitized which looks a little far away. There are lots of innovations on digital front and many more are added regularly as per requirement. SFBs look forward to digital channels as key channel for financial services in future and digital will be biggest equalizer in future.

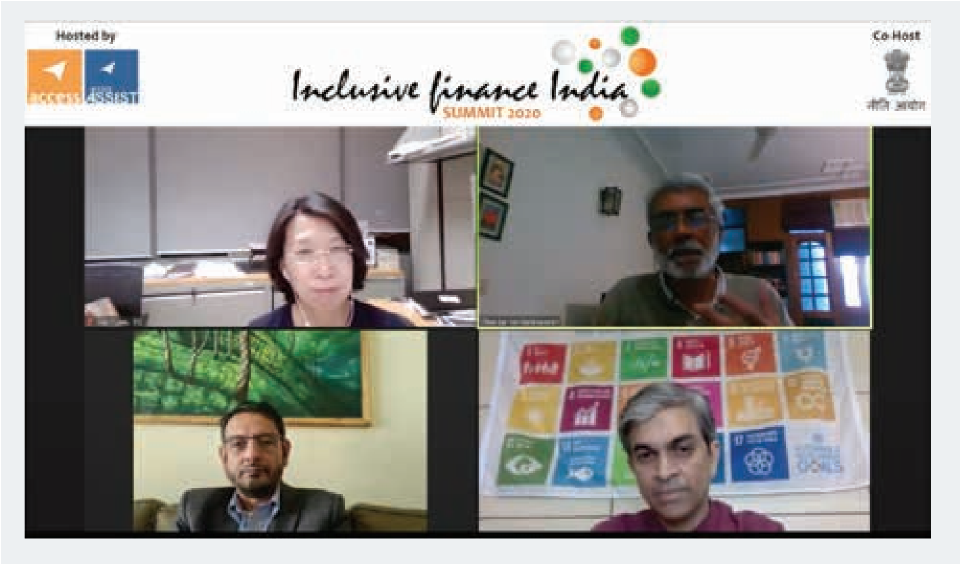
Financial side have also seen significant changes for SFBs. The cost to income have increased and will continue to do so as banks need to invest in people, technology and branches. The cost to service is also high due to high attrition and heavy competition and factor that SFB are not very stabilized where people will stay. The ROE have dipped from what their NBFC model used to have but the sustainability factor have increased significantly.

On asset products, micro-loans takes up largest chunk of SFB books and they will remain so for near future. The JLG model may change to individual model but the customer base is going to remain the same.

KEY TAKEAWAYS

- **Trust building is highest priority for SFBs to create liability books for matching their asset books and to attain growth.**
- **Currently SFB branches have skewed books on liability or asset side. They need to work on making their branches "complete" with balance on each side to reach optimum potential.**
- **Liability business from rural and semi urban branches will have higher number of transaction and to reduce the impact of transaction cost, SFBs need to focus on digital and BC channels.**
- **Trust is fundamental need to attract and retain customers specially on liability side and having a good team, either with past relationship or who can create a good relationship, is important. SFBs need to have focus on having a good team.**
- **When a customer do transactions digitally without any hassle, be it transfer, payments or receipts it creates image of capable bank in line with other commercial banks. Technology can help SFBs to increase their performance as well as gain trust from their clients. SFBs need to focus on building a trustworthy and efficient digital platform for their service.**
- **Banks are custodian of depositors money. Having significant asset portfolio in single asset class i.e. microfinance, is not an optimal risk aversion strategy. SFBs need to work on diversification of asset side products.**

TECHNICAL SESSIONS 15



ADOPTING SUSTAINABLE FINANCE: MAKING THE BUSINESS CASE FOR ESG INVESTING

Moderator – Shankar Venkateswaran, Chairperson, Oxfam India Board

Speakers

- Royston Braganza, CEO, Grameen Capital India
- Wei Yuan, Sustainable Banking Network, IFC
- Arindom Datta, Executive Director and Head of Rural & Development Banking / Advisory, Rabobank

Sustainable strategies are gaining traction. The investors' willingness to outperform, mitigate risks, or enter niche business opportunities are clear stimulants for spurred ESG investments. Investors are aligning their portfolio along with ESG considerations to sustain business in the long run. ESG Investing, is rather, the pillar of a sustainable business ecosystem. It seeks long-term value-creating knowledge or avoids particular risk exposures that may give rise to credibility issues. Increasing public awareness of ESG-related risks, accelerated by the emergence of a generation of investors who offer priority to non-financial impacts alongside financial factors has fueled the ESG investment growth in recent years. There are thousands of signatories of "Principles of responsible investing and they control over 20-80 trillion USD of AUM. This is indicative that ESG financing has now become a very central phenomenon from peripheral few years ago.

A new report from PwC suggests that ESG funds will outnumber conventional funds by 2025 in Europe. It is projected that ESG equity funds will see a compound annual growth rate of 26.8%, with assets quadrupling to more than EUR 3.6 trillion by 2025. Bond funds will rise at a rate of 30.4% and assets will reach EUR 1.6 trillion over five years. It has been proven that ESG issues are salient to investors during this Covid-19 global pandemic, for example, the Nifty 100 ESG Index is down to 2.8% versus an 8% drop in the NSE Nifty 50 Index mounting the evidence of ESG indexes being more resilient during the current economic downturn.

While there are more apparent reasons for adopting tenets of ESG Financing by financial institutions, investor mandate and strategic influence on investee's plays a critical role and a responsible investor community can shape industry priorities. Policy makers are also getting serious about ESG financing. SEBI have issued consultation paper on business responsibility and sustainability reporting. The new norms voluntary this year and mandatory thereafter would apply to top 1000 companies. SEBI reporting norms on this follows National guidelines on1 responsible business conduct issued by MCA. At global level Sustainable Banking Network of IFC have 42 member countries who can impact banking assets of over 43 trillion USD representing 86% of banking asset in emerging markets. Some of the early data shows that the sustainable companies which are rated and rank very high are also the best performing companies so far as financial performance is concerned. The hypothesis that investments in a responsible company is will be protected for longer time, appears to be true but more data is required to ensure that but ESG appears to make a good business sense. Also important is reporting of what a business is doing for ESG parameter to all internal and external stakeholders is crucial.

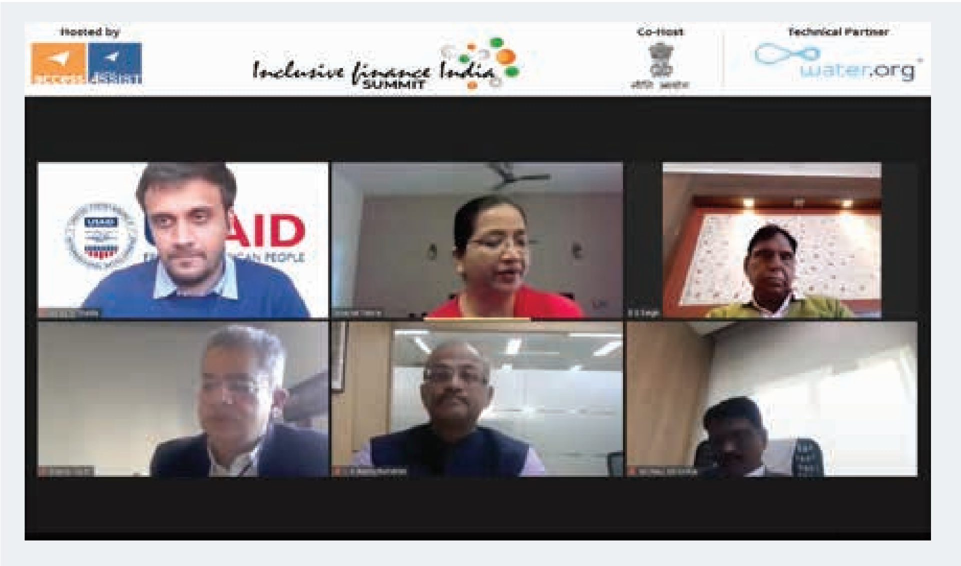
There are more factors which make ESG financing crucial for all businesses. Following ESG principles ensures that the business is ensuring that world left behind is same or better than what we got. Regulations are coming very heavily on responsible business practices. Market is evolving and sustainability parameters are now basic requirement to enter many markets.

Now more and more regulators are considering environment, pollution and sustainability perspective. Investment could be at risk if these perspectives are not followed and government takes action. So following ESG norms actually reducing risks. Further there is intensification of environmental concerns that creates driver for FIs to provide protect portfolio which gives push to ESG investing. The two sides of investing "Risks" and "Returns" are very favorable to ESG investing. It is evolving and investors, regulators and customers are paying attention to it. It is very likely that majority of future investments need to adhere to ESG principals and all stakeholders need to pay required attention to it.

KEY TAKEAWAYS

- **ESG financing have for key pillars- Education, Risk Management, Business Development and Reporting. Policy development should work around these pillars to ensure comprehensiveness.**
- **Governments around the world are getting stricter on environmental impact front which makes ESG financing more attractive from investment perspective.**
- **Banking sector is first source of money for businesses in India. Policy makers and regulators need to work on ESG principles incorporation in lending guidelines.**
- **Innovation in products design for ESG investing like livelihood bond or solar energy bond with small scale investing with access to responsible financing exchange could be a game changing phenomenon for ESG financing, on which stakeholders need to work on.**
- **Different regulating agencies working on different aspects of ESG. They should work together to collaborate and also look at international space for similar trends and come up with uniform guidelines.**
- **Stakeholders need to finalize reporting mechanism which will be key to ensure that ESG principles are followed.**

TECHNICAL SESSIONS 16



MAINSTREAMING WASH FINANCE – POLICY RECOMMENDATIONS AND PRACTITIONER PERSPECTIVES

Moderator – Meenal Patole, Promoter & Director, Agora Microfinance India Ltd

Speakers

- L R Ramachandran, CGM, Department of Refinance, NABARD
- MV Murali Krishna, GM, Bank of Baroda
- Mukul Jaiswal, Managing Director, Cashpor Micro Credit
- Manoj Gulati, Managing Director India, Water.org
- Apoorv Shukla, Development Finance Specialist, USAID/ India Mission

Water and sanitation as part of SDG have been area of focus of government and development agencies for long in the country. There are many schemes providing necessary support in form of grant to create necessary infrastructure. The sheer size of country and its population it is very difficult to reach out to all the needy with required support for water, sanitation and hygiene infrastructure creation. The schemes like SBM and PMAY are important but the efforts would be one time activity. Sustainability of these things will come only when bankers and FIs come forward and fill the gap required in terms of expansion, maintenance, the ancillary activities that could be provided and sometimes even for reconstruction of existing facility.

WASH investments don't provide direct financial benefits but they are indirectly supporting income enhancement by reducing expenses on health and by saving on reduced productive days due to illness. This is just for financial perspective, the other perspectives of lifestyle enhancement, women safety etc. are also very crucial.

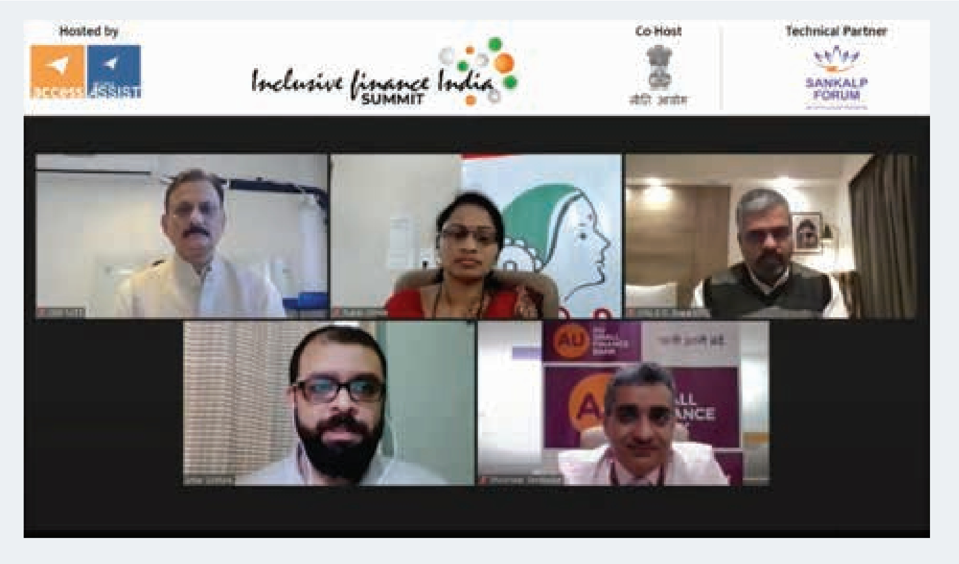
Development agencies are working with government for policy development for enhancing access to WASH in the country and with financial institutions to create necessary framework for it. These agencies also work for providing required technical support and work with their partners for giving necessary momentum to the cause.

Target segment for WASH financing is lower income group population in urban and rural space. Banks and Microfinance institutions and other FIs who serve these segments are key channels for delivery of WASH finance. WASH as a special category have never been a core area of business and risk assessment/ underwriting for this segment is very different than other financing products of FIs and for this purpose various support options are available. There are funds from international agencies specifically targeting WASH. NABARD have created special refinancing scheme for water and sanitation financing. The ticket size is very low and significant portion of target population is rural base. This make WASH financing by banks relatively difficult and not cost effective. For last mile delivery of WASH financing partnership with NGOs and MFIs would be a better way to reach out to maximum of target population and for this necessary support need to be provided. Government agencies like NRLM/SRLM could prove to be very effective in reaching out to last mile with support from banks. Some RRBs have come forward to finance WASH to SRLM members.

Over the years due to various awareness schemes, presence of communication technology, support from government under SBM, increase in education level etc., there is change in mindset of rural and urban population. Accessible water and sanitation in the house have become part of life. This have created demand for WASH credit. One more factor which enhance demand is reverse migration when migrants reaching back to their villages required facilities which they enjoyed in metros.

KEY TAKEAWAYS

- **Credit to WASH is not linked with any income generation activities and loans are very small to have collateral. If some kind of credit guarantee is available to banks and FIs that would provide necessary boost to WASH financing.**
- **Target segment is mostly non-accessible to most of Banks and FIs. Support should be given to last mile delivery partners like MFIs and NGOs who work with target communities.**
- **To enhance take-off of the credit facility, awareness programs are must both for need of WASH facilities and for credit facility available to target population from different financial institutes in their area.**
- **Covid pandemic have created situation where lots of migrants have reached back to their villages and in need of WASH facility as they enjoyed in their urban/metro work cities, and also it has created a need for hygiene. This is the right time to promote WASH credit for all stakeholders.**
- **There is lots of scope for water entrepreneurs who just need some support. If specific water entrepreneurship category is created for interest subvention, it can give a huge boost to drinking water availability at low cost and also generate employment.**
- **There is need of communication from top to bottom on various priority sectors lending schemes at banks so that they can actively participate in it.**
- **WASH financing beyond individual loan categories for creation of community level infrastructure, technology development and adoption etc. could create a significant business and Financial institution need to develop and launch products for this segment.**



DIGITAL FINANCIAL SERVICES FOR LOW INCOME WOMEN IN INDIA – EXPLORING MICRO SAVINGS & MICRO INVESTING

Moderator – Amar Gokhale, AVP, Intellecap

Speakers

- Rupali Shinde, Digital Literacy Trainer, Mann Deshi Bank
- Joby Co, CEO, Dvara KGFS
- Satyajit Dwivedi, CEO, National Center for Financial Education (NCFE)
- Shoorveer Singh. Shekhawat, Chief of Products & Communication Liabilities, Au SFB

With the steady growth of digital financial services, enhanced internet connectivity and push for livelihood enhancement for women by government, income level of women going to increase. Women are more likely to save for future then men, their income is lower than men, their life expectancy is higher than men, there are so many reasons for offering investment and saving products suitable to her cash-flow. Micro savings and Micro investment products are needed by women of low income women to support them in their journey to have a financially safe and rewarding investment, to fulfil their life goals.

The biggest hurdle for fulfilling the investment and saving need of poor women is lack of awareness and availability and accessibility of products. Lack of awareness created lack of choices for women and that is the first hurdle that need to be crossed to offer micro savings and investment products. Financial awareness and empowerment will also lead to social empowerment.

Poor women have limited resources and there is always some venues where money is required. To motivate them to do savings and investment need a much broader and integrated approach with lots of financial literacy and planning involved. The approach used by Dvara KGFS is for wealth management of poor households. The limited resources that poor women have require more efforts in management of those resources to ensure her and her family's needs, be it planned or emergency are fulfilled. Women should have access to all such products which are required in her journey like savings, investments, insurance and credit and her planning should be optimize utilization of her resources through these tools.

One of the good thing about poor women is their association with microfinance which gave them habit of EMI. They understand the concept and have been paying same amount for many instalments. Same habit can be utilized for saving and investment products. The investment and saving product should offer flexibility of transaction as per cash-flow of client.

The investment concept of poor women is different than what urban/ affluent population have. Her visualization of investment is all about physical asset. Women tend to prefer similar investment options like gold with which she can associate. The investment option will come only after the trust is built which will come with saving. Initially only a few will choose investment option and others will prefer to watch and if better returns come they will switch from saving to investment.

All of this will require a significant effort on awareness and education of women on micro-savings and investment products. Initially it need to be high touch model with presence of agent or staff of FI in the field and gradual assistant transition to digital only mode.

KEY TAKEAWAYS

- **First step for offering the micro savings and micro-investment products is creating awareness about importance of these products and availability of the products.**
- **Women from poor households should have confidence on these products that she can utilize/ withdraw money whenever she needs. Products need to be designed ensuring this confidence.**
- **Access to these products for deposit and withdrawal should not be a hurdle for these women. Digital access through local shops/ vendors/ kiosks or ATMs need to be ensured by financial institutions.**
- **Investment products will require lots of education programs for clients through agents or by digital media and transition from savings to investment would be gradual. Lots of handholding and patience would be required.**
- **There is high boarding cost and some support from government / banks or development agencies would help FI to take the products to the needy.**
- **There is need of client awareness about risks involved with investments and fraudulent activities and all stakeholders need to provide necessary support for running such programs and campaigns.**

PLENARY 6

POWERING FINANCIAL INCLUSION THROUGH PRIVATE SECTOR: MARKET LED INNOVATION, DIGITAL FINANCIAL SERVICES AND ITS VIABILITY

Moderator – Geeta Goel, Country Director - India, Michael & Susan Dell Foundation (MSDF)

Speakers -

- Anand Bajaj, CEO, PayNearby
- Ajit Pai, Distinguished Expert, Economics & Finance, NITI Aayog
- Hardika Shah, CEO, Kinara Capital
- Sateesh Kumar A V, MD & CEO, Vaya Finserv

Interventions in last few years have change the financial inclusion landscape to a great extent. There are lots of accomplishments like Jandhan Accounts, e-KYC etc. The performance statistics due to these intervention are significant even in the context of large economy like India. All this have been possible with right technological infrastructure and public infrastructure to support this. Private sector have come-up with their own market based intervention in this journey of financial inclusion on the infrastructure that was built by government and helped in reaching to last mile customers.

There is no doubt that lots of efforts have been made for financial inclusion but lots more need to be done to reach out to still excluded population. India have approximately 500 million feature phones and most of the financial apps don't work on them.

Approximately 60-100 million population don't have phone. There are 63 million MSME in country which generate 30% of countries employment and 25% our GDP. Out of these MSME almost half don't have any formal registration, less than a third have bank account in the name of enterprise and almost two third are new to credit or have not accessed formal credit ever so they don't have credit history.

All these indicate towards digital divide that is inhibiting financial inclusion and also opportunity for private sector. Private sector have come up with disruptive technologies and business models targeting the opportunity this digital divide have provided. They are reaching out to earlier excluded population with new technology as well as newer approaches. A kirana shop owner is now the trust partner and providing financial services to population. All this was possible because the basic digital infrastructure for financial services – Jandhan Account, Aadhar Linkage, UPI etc. is created.

While the private players tirelessly work towards developing new products, reducing cost of delivery of products and services for low income households and reducing other inefficiencies, many struggle to demonstrate the necessity and business case for serving traditionally un(der)served segments and balance the business viability, customer affordability and scaled outreach parity.

KEY TAKEAWAYS

- **TDS for cash withdrawal by BC agent is a prohibiting factor which holds up money for long time and many agents have stopped work due to this fact. Policy makers need to address this issue.**
- **Unique identifier for a credit customer is very crucial to access credit history and also to create credit history. Making AADHAR non mandatory have affected the unique client identification significantly. Policy maker should address this issue.**
- **Credit guarantee program is a great idea and with some policy level changes in last mile distribution, NBFC can be a part of it reaching out to micro enterprises, which couldn't access these schemes.**
- **There are various schemes let out by government to help out financial entities to fight back effects of pandemic but the criterion set out by these schemes are more inclined towards exclusion rather than inclusion.**
- **Risk takers to last mile delivery of financial services should be supported by more inclusive policy level supports.**
- **Models with alternate data for determining credit worthiness could be game changer to reach out to people without credit history, all stakeholders of financial inclusion arena need to pay due attention to it.**

PLENARY 7

RELEASE OF COMMEMORATIVE BOOK ON VIJI AND VIJI DAS COMMEMORATIVE LECTURE

Release of book and Introductory Address -Ela Ben Bhatt, Founder, SEWA

Special Lecture- Women & Finance- Mary Ellen Iskenderian, President and CEO, Women's World Banking.

"Banking and Women", lecture delivered by Ela Ben Bhatt, Founder, SEWA on memories of Viji Das.

The lockdown have witnessed the longest march of millions of migrants without necessary supports and no visible future. We as a society allowed our hard working and honest workforce to suffer without access to savings, access to credit, relief or compensation to mitigate misery of loss of job and future both. Cities so powerful and representing culmination of human development just looked away-silently.

Had more finance be in hands of more women this situation of poor migrants suffering due to pandemic would have been much better. As an economy and as a society or as a culture we collectively consented to this bloodless but acute violence on our working majority. We continue to keep our poor without basic primary need and if women have access to finance money goes into the primary needs of family.

There is paradox of managing resources like banks and financial institutions by those who don't have direct dependence on the outcome. The banks, FIs and economy must be owned and shaped by those whose daily economic acts of producing, consuming, trading, investing, financing and banking. They shape the economy. Otherwise it is unjust governance. We as a society need to work to create systems which work for drivers of our economy workers, labors and micro-entrepreneurs to provide them access to services like finance. This will help them move bottom up and will serve the economy of world.

Viji's journey is all about women empowerment and pursuing that she became the reason for existence of microfinance in India. First with FWWB from 1989 and later as founder of Ananya, Viji helped hundreds of financial institutions in the country receive financing and technical assistance they needed to serve millions of low income women. She was frequently the first lender, willing to take chances on newly created microfinance institutions. The technical and financial support provided by her enabled those organization to have an even greater impact on the lives, not only of their women customers but on those women's children and their wider communities as well.

The impact of her life and work extended far beyond India thanks to her willingness to share her vision with other around the world through women's world banking network. Women everywhere truly owe her a debt of gratitude.

Women's World Banking

WWB for more than 40 years have advocated for the financial security, prosperity and economic empowerment of women by driving action and investment in financial inclusion. WWB partner with governments to enhance national policies that promote women's financial inclusion and with financial service providers to develop and deploy innovative sustainable and scalable financial solutions that meet women's needs. WWB also invest directly in financial institutions to influence these organization to better serve women as leaders, as employees and as customers.

WWB do this because women still participate unequally in economies across the globe, women are less likely to participate in the labor force than men, if they are employed it is often in the informal sector or in vulnerable jobs, women are paid less than men, they bear a disproportionate responsibility for unpaid care and household work, they are less likely to have social and legal protections, women are less likely to have access to financial services, female entrepreneurs face many more dis advantages than men do in starting a business or receiving the funding to grow, women are constrained from achieving the highest leadership positions within our organizations and institutions. When women are given the tools to participate equally to men they are an economic force to be reckoned with women's full participation is going to be vital to our growth and recovery from this pandemic by reaching economic gender equality.

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