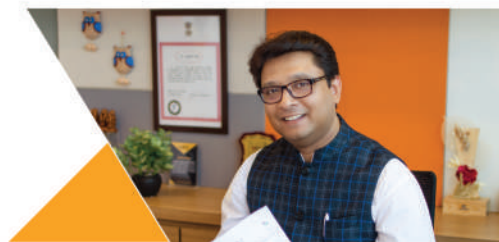


## A year of Achievement!! 2018-19



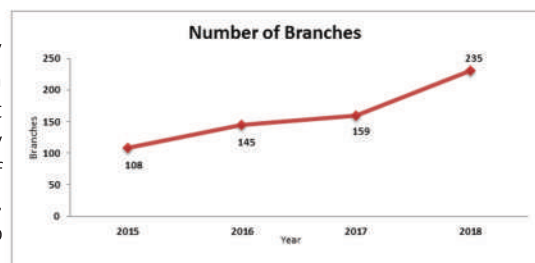
As we all know last year hasn't been the best for the financial services sector.

On one hand, banks were recording steady growth in recovery of bad loans riding on the insolvency and bankruptcy code (IBC) that is destined to correct some age-old maladies in the financial system; on the other, collapse of a large NBFC group in September, impacting liquidity.

While the impact of the liquidity crunch on the real estate sector has already been reported, coincidentally there is a visible glut in sales of apparels and fashion accessories in many major Indian cities for last six months.

To address the concern, the last Union Budget took a number of measures like Income Tax break for middle class and capital gains concession for purchase of second home which are aimed at improving money flow and consumption.

Notably India was not alone to suffer from liquidity crunch. Most major Asian markets are living on uncertain terms. According to a Bloomberg report: "Last year marked the deepest deterioration in Asian liquidity conditions since 2008". The good news is the rate of deterioration in liquidity index, both in Asia as well as in India, slowed down in January. The broad expectation is, things will start to improve in next few months.



Interestingly, all studies indicate India's poor and not so privileged didn't bear the brunt of the liquidity crisis. The credit goes squarely to the MFI sector. It is now a proven fact that MFIs are the primary vehicle for financial inclusion of the poor, mitigating the gender inequality, and is contributing significantly in building a loan culture in the country amidst the headwinds of loan waiver spree.

Though yet to get its due social recognition, MFIs are silently creating successful entrepreneurs from poor rural women and ensuring job creating in the non-farm sector, which is reducing the pressure on agriculture.

As a leading microfinance institution, VFS is working steadfastly to reach these goals. During 2018-19, VFS enhanced its branch network by over 45% to 240. Our services got a fresh boost with fresh equity infusion from 'Param Capital' and 'Capital First'. Total disbursement (outstanding) is estimated to increase by over 40%.

To ensure that the growth is sustainable, we strengthened our internal audit system and focused on greater customer connect and training. Reskilling of our employees was also part of the agenda to keep up with the times.

Growth of any organization depends on the ability and integrity of its employees. No amount of planning from the top can take an organization forward, if the employees at the ground do not deliver. The role of the ground force is even more significant in an MFI.

It is VFS Team who played the significant role in our commendable growth in the last year. I will seek their continued cooperation in maintaining the pace of growth in the years ahead.

With Warm Regards  
Kuldip Maity



### Quarterly Audit: 84% branches secured 'A' grade

Auditing helps evaluate the effectiveness of a company's internal controls. This is vital for achieving business objectives, obtaining reliable financial reporting on its operations, preventing fraud or misappropriation of its assets, and minimizing the cost of capital.

Being a reputed organization VFS created a robust audit and risk mitigation system, aided by a pool of 17 qualified auditors evaluating business at all branches every quarter. To ensure quality reporting we have also strengthened the auditing parameters.

It's a matter of pride that 84% of VFS branches secured "A" grade (scoring above 80%) in the October-December quarterly audit, indicating great standard of integrity maintained by our employees.

However, to ensure further strengthening of the auditing system, we have just introduced a special audit system for the Systemically Important Branches (SIB), each reporting more than Rs.5 cr. outstanding.

The benchmarks for auditing SIB branches are set by clubbing the Credit Risk Management (CRM) and Operational Risk Management (ORM) system parameters. Very soon we will introduce Region-wise Audit. We are now recruiting auditors in every region to carry out the mandate.

We are happy to inform you that 84% branches got "A" grade for the last quarter in audit. This type of result gives us a sense of pride although we are continuously upgrading our audit system to maintain better and quality portfolio.

## Poor (are) lifted or left-ed

### KULDIP MAITY

Managing Director & CEO (Personal Blog)



It is a general belief that if there is growth there would be prosperity for all. By extension, it is argued that if a country focuses on achieving growth this would automatically lead to reduction in poverty. Some people tend to justify this logic from the premise of free market mechanism. They argue that in a market economy the market mechanism – popularly referred to as invisible hand – would ensure that the fruits of growth would automatically get distributed across various stratum of the economy and would in the ultimate analysis lead to the alleviation of poverty.

In support of the argument various empirical findings are cited. But a closer look at any one of them would lead to the conclusion that impact of growth, unless supported by appropriate policy of distribution, tends to severely limit the distribution of income and the resultant effect on poverty alleviation.

One of the quoted studies in this regard is the survey done by the DFID in 14 countries. The study points out that if there is a 10 per cent increase in a country's average income it would lead to a reduction in the rate of poverty by 30 per cent. This result, read in isolation, might provoke a protagonist of mere growth results automatically leads to poverty alleviation to reach his 'eureka' moment.

The rider in the study, however, is actually a great revelation. It says that "In countries with very low level of inequality one per cent increase in income levels could result in a decline of 4.3 per cent poverty level while the reduction would be just 0.6 per cent in highly unequal countries."

The conclusion is inescapable. It is not that growth doesn't benefit the poor but the degree of impact differs depending on the degree of inequality. The logic here is simple. Opportunity by itself is not enough, one needs related empowerment to benefit from the opportunity. Growth creates opportunities for employment. But if a citizen lacks the training in the field that is looking for employable people. Untrained ones won't be able to benefit from the opening. Therefore there has to be an easy access to education and training that would lead to skilling of those looking out for job. If it is not there, no amount of growth would be enough to address the issue of poverty.

This very simplified example gives us an idea about why the rate of reduction in the level of poverty is conditioned by the degree of equality in the market. The role of government policy and its effective implementation therefore turns very vital in reducing the incidence of poverty. This is because those who are relatively better off will have relatively better access to health and education and vice versa. The empowerment, as informed by an effective policy, in providing access to education and health care would create that important mechanism that would lubricate the invisible hand in percolating the fruits of growth to all sections of the society. In the absence of such an empowerment a mere growth would tend to exacerbate inequality and incidence of poverty.

## Union Budget 2019: Few Major Highlights of Interim Budget 2019-20

India has become fastest growing economy

- By 2024, India will have housing for all, free from corruption, communalism and nepotism.

- India has now become the 6th largest economy in the world.

- Inflation has been brought down to 4.1 percent; average inflation stands at 4.6 percent

- The fiscal deficit has been brought down to 3.1 percent.

- The Current Account Deficit has also been brought down.

- India attracted maximum Foreign Direct Investment (FDI) in 2018-19, amounting to USD 239 billion. This has been possible through rapid liberalization of FDI policy.

- In last 5 years (2014-2018), India witnessed structural reforms by introducing Goods & Services Tax (GST) and other taxation reforms.

### MSME SECTOR

- A scheme of sanctioning loans up to 'Rs

1 crore in 59 minutes' has been launched. GST-registered MSME units will get 2 percent interest rebate on incremental loan of Rs 1 Crore.

- Job seeker has become job giver.

- 25 percent of sourcing for government projects will be now from the MSME sector, of which three percent will be from women entrepreneurs.

- MSMEs can now sell their products on the Government eMarket place (GeM), a one-stop-shop to facilitate online procurement of common use goods.

## Highlights of the Microfinance Industry



- As on 30 September 2018, number of borrowers was 2.93 Cr, 38% higher than Q1 FY 18-19.

- Aggregate gross loan portfolio (GLP) was Rs 59,514 Cr on 30 September 2018, recording 12% growth over Q1 FY 18-19.

- Loan amount of Rs 21,001 Cr was disbursed in Q2 FY 18-19 through 84 lakh accounts.

- Average loan amount disbursed per account during Q2 FY 18-19 was Rs 25,070, an increase of 7% from Q1 FY 18-19.

- During Q2 FY 18-19, NBFC-MFIs received a total of Rs 7,966 Cr in debt funding, up by 12% from Q2 FY 17-18. Total equity capital grew by 16% to Rs. 12,876 Cr.

- MFIs now cover 30 states/union territories. East and North East accounts for 36% of the gross loan portfolio followed by South (26%), North (15%), West (15%) and Central (8%).

(source: MFIN)

## From Regulators Corner

- The RBI reduced interest rates by 25 basis points - showed the central bank will make the same move next quarter. That would take the RBI's repo rate to 6.00 percent; it's lowest since the middle of last year.

- The Reserve Bank of India (RBI) in the first week of February 2019 imposed monetary penalty on seven banks for non-compliance with various directions issued by the RBI on monitoring of end use of funds, exchange of information with other banks, Know Your Customer (KYC) norms, etc.

The penalties were imposed in exercise

of powers under the provisions of Section 47A (1) (c) and Section 46 (4) (i) of the Banking Regulation Act, 1949, taking into account the failure of banks in adhering to the directions issued by RBI.

- The Reserve Bank of India (RBI) on January 8, 2018 constituted a High-Level Committee on Deepening of Digital Payments to encourage digitization of payments and enhance financial inclusion.

The five-member committee will be headed by UIDAI's former Chairman Nandan Nilekani. The committee will

review the existing status of digitization of payments and suggest ways to bridge any gaps in the ecosystem.

- Market regulator Security and Exchange Board of India (SEBI) has constituted a "Research Advisory" committee that will assist in formulating policy to undertake research relevant for development and regulation of capital markets.

The committee, headed by Sankar De, would comprise prominent financial economists and market practitioners.



## Employee Meet @ VFS



As is the norm staff meetings were held across VFS's operational bases. So far, meetings were organized at Burdwan and Siliguri in West Bengal, Nalbari in Assam, Agartala in Tripura etc.

Considering the wide geography VFS operates in, such meetings play a crucial role in instilling a sense of purpose and pride in employees.

While business takes the centre-stage in such meetings, we also reserve sufficient time and scope for social exchanges including the cultural show where VFS employees leave a mark of their multifaceted talent.

Question and Answer sessions are an integral part of the such meetings, offering staff members opportunity to directly interact with the senior management.

Apart from MD & CEO various department heads from IT, Strategy, Audit etc were present at Staff meetings and impressed the employees about the strategies for the next financial year.



## VFS-IDBI Collaboration

The biggest gift of the microfinance operations in India is, it insulated the poor from the overall liquidity concerns in the economy. With rising concerns for financial inclusion, the importance of MFIs in credit delivery to the rural poor is increasing by leaps and bounds.

VFS with operations in 10 States in India is a significant contributor to the national endeavor to empower the not so fortunate. In recognition of our ability, IDBI Bank selected us as a Business Correspondent in West Bengal.

Twenty VFS branches in various parts of rural Bengal are working with IDBI bank for last three years. As in the last quarter, VFS disbursed more than Rs 50 Crores of loans in rural areas to 65000 customers.



## VFS Achievers' Corner

### Bandana Pal

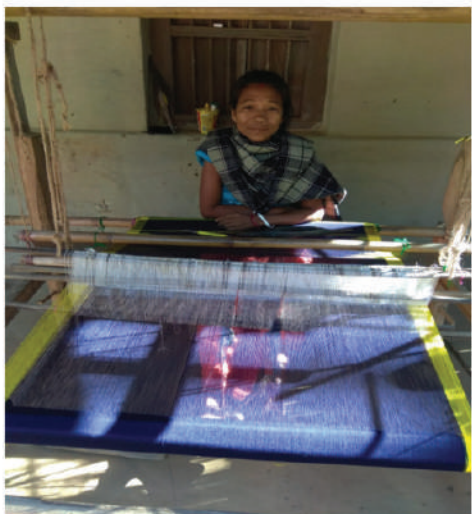


Bandana Pal of village Patihal in Howrah district, west Bengal, is associated with VFS for the past 9 years. In 2010, then unmarried, she took a loan from VFS to start her the business of painting pottery used in puja purposes.

Now a proud mother of two children, Bandana is a successful entrepreneur, having taken loan for the 8th time, last year. She shares household expenses equally with her husband and even built the family house in the village.

"As I look back my life has changed way beyond expectations, since the day I visited Bargachia Branch of VFS in 2010," she told a VFS customer service representative.

### Amita Singha



Amita Singha from Dhajanagar, Shipahijola, Tripura, learnt weaving as a community practice. Weaving is a normal household activity among poor tribals in this part of India.

Change struck when Amita wanted to convert weaving into a business activity to support the family. The idea was good but she didn't have the money to invest in a requisite loom. The small resources she could manage was severely insufficient to sustain the business.

Visits to local bank branches were didn't yield result as they would give loan without collateral. However, one bank official suggested her to contact the local VFS branch at Bishalgarh.

VFS didn't return her. Amita got the first loan of Rs 25,000. But VFS's responsibility didn't end with loan. It handhold her to impart the right training and knowledge about handling accounts etc through the CAT (Customer Awareness Trainings) and skill development programmes.

Amita is now a full scale entrepreneur weaving and selling sarees in the local market. Is she happy. The smile on her face tells it all.

### Mos Malo



As a single mother Mos Malo from Choundi village in Katihar district of Bihar was faced with extreme hardship. But her determination and a small support from VFS made Malo a successful businesswoman.

She took her first loan from VFS in 2016 to start vegetable vending at the village market. But life was not easy. The marketplace was male dominated and Malo had butterflies in her stomach.

With regular counseling she had soon gained the confidence to break the glass ceiling. She repaid the first loan and taken a second loan. She is enough money to buy a motor cycle for her son. Life is no longer cruel to her.

### Sandhya Choudhary



Sandhya from Ranhatta in Uttar Dinajpur district in west Bengal couldn't study beyond sixth standard. Her parents were too poor to afford her education and got her married at a very young age.

So when Sandhya had a son, all she wanted was to get him educated. The dream landed her in trouble. Her in-laws took it as a luxury and put up stiff resistance.

But Sandhya was adamant. She realized the only way to live her dream was to become financially independent. She started planting bay-leaf in the kitchen garden. But to sell the dry leaf she needed capital.

Having been informed by a friend, she contacted the Hemtabad Branch of VFS for help. The branch level VFS team first contacted her in laws and convinced them to support Sandhya, as the business could improve the living condition of the family.

The intervention worked. As the family became supportive to her, VFS disbursed Rs 20,000 loan.



#### Disclaimer

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Phone: +91 33 66551414

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