Microfinance as an instrument of Financial Inclusion in India: The present position and Lessons between the South and the North

Satish Pillarisetti
Chief General Manager

National Bank for Agriculture and Rural Development (NABARD)
India

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Prologue

• Microfinance in India at present in two distinct variants
• 1. Self Help Group- Bank Linkage model
• 2. Micro-Finance Institution model
• SHG model is built upon the work of community based organisations
• Financial services are part of broader agenda of economic and social empowerment
• MFI is a minimalist model
• Focused only on credit
Self-Help Group alternative-1

- Self-Help Group-Bank Linkage Programme
- Initiated as a Pilot Project by NABARD in 1992
- Outcome of action research studies
- Emerged as a regular lending programme for banks
- Reserve Bank of India’s policy facilitation
- Supplementary credit delivery mechanism
- Essential features of empowerment and peer pressure
- Huge social mobilisation interventions
• SHG-Bank Linkage Programme evolved into the largest microfinance programme in the world
• By March 2012: 8 million groups linked to banks; 104 million families
• Savings of $1.31 billion
• 4.4 million groups have loan accounts
• Loan outstanding: $7.26 billion
• SHG-Bank Linkage Programme has proved its resilience in two decades of its existence
• SHGs operate with lower administrative inputs
Self-Help Group alternative-3

- After initial costs on formation and nurturing the groups are able to sustain themselves
- Gradual withdrawal of NGOs involvement observed
- This role is taken over by federations
- Federations would now require policy and financial support
- SHG movement has now to be taken to a higher pane and strengthened
- NABARD has embarked upon SHG-2 on the occasion of two decades of SHG-Bank Linkage Programme
Self-Help Group alternative-4

- Need for Banks to reach out
- Reemphasise training of bankers on linkage
- Bank managements should sensitise field on SHG account opening and lending
- Specialised SHG branches need of the hour: e.g. Indian Bank, Bank of Maharashtra
- Voluntary savings an important component in SHG-2
- Flexibility in credit products
- Expansion into other financial products
MFI alternative-1

- MFIs presence noticed from the year 2000
- Large number of small institutions: ~ 1,000
- Varied legal forms: NGOs, Cooperatives, Trusts, Companies
- In 2000 most were NGOs and Trusts
- Many transformed into NBFCs
- Now: most preferred form Non-Banking Finance Company
- NBFCs are registered under company law and regulated by RBI
• Large NBFC-MFIs (around 25) have a 60 percent market share
• Rush among NGO-MFIs to convert to NBFC-MFIs
• Crises in Andhra Pradesh in 2005 and 2010 threw light on the negative features of MFI functioning
• AP Ordinance on Microfinance-2010
• Malegam Committee Report-2011
• RBI guidelines for NBFC-MFIs
• Special category of Microfinance NBFCs
• Interest rate caps and loan limits imposed by RBI
MFI alternative-3

• MFIs with their minimalist approach may not fulfill the developmental mission of microfinance
• But they too fulfill a felt need for financial services
• A class of clientele exists for such minimalist service provision
• MFIs had a client outreach of 26.8 million in 2012
• Loan portfolio was $ 4.18 billion in 2012
• Total branch network of 12,000
• MFIs (Development and Regulation) Bill, 2012, with the Parliament’s Standing Committee
• RBI and NABARD lukewarm to the Bill
Financial Inclusion agenda-1

• Financial Inclusion in India basically bank driven
• RBI’s focus on 4 products by banks:
  1. Savings cum overdraft account
  2. Remittance facility
  3. Pure savings product
  4. Access to credit through GCC or KCC
• Financial inclusion plan for bank service presence in villages with population > 2000
• Business Correspondent model
• Customer Service Points
- Expansion of brick and mortar branches too
- Kiosk Branches
- Ultra Small Branches
- KB/USB to service at least 8-10 BCs
- ‘Swabhiman’ (Self respect) campaign of Government for opening bank accounts
- Now villages below 2000 also to be covered
- ‘Aadhaar’ the unique identity number campaign of Government to facilitate identification
- Mobile branches
- Mobile phone banking
Financial Inclusion agenda-3

• Mobile based KCC project piloted by NABARD
• Smart card based KCC initiatives
• Programme to convert all KCCs into mobile based cards or smart cards
• Pilot project to route all government benefit payments through bank accounts linked to ‘Aadhaar’ in 50 districts launched
• To cover entire country gradually
• NABARD’s programme to bring all cooperatives on CBS through cloud computing
Progress in Financial Inclusion agenda

• More progress observed in two years between 2010 and 2012 than in preceding half decade
• Number of BC/BC agents deployed reached 96,828
• Banking outlets through BCs-120,355; through other modes-2,478
• No frill accounts-103.21 million
• No frill accounts with overdraft-1.52 million
• BC based accounts-52.07 million
• BC based EBT accounts-21.76 million
• Kisan Credit Card-22.34 million
• General Credit Card-1.27 million
Problems in Financial inclusion agenda-1

• RBI’s straitjacket instructions on BCs
• Distance, margin and cost sharing restrictions
• Issue of financial breakeven and sustainability of BCs
• Corporate BCs engaged by banks unable to hire and retain local staff
• BCs not seamless into CBS
• Banks lukewarm to use BCs as full service providers
• Technology glitches in smart card operations
Problems in Financial Inclusion agenda-2

• Cooperatives excluded from financial inclusion
• Nearly 100,000 outlets with wide outreach
• But attitude of RBI and government ostrich-like
• Potential of microfinance for financial inclusion not yet harnessed fully
• SHGs are an integral element of financial access
• Some RRBs like Vidarbha are using SHGs as BCs/BFs with great success
• SHG Federations acting as BC in some areas
• MFIs are also being used as BCs
Leveraging microfinance for FI-I

- Potential of 8 mln SHGs should be fully exploited for taking financial inclusion agenda forward
- SHGs can be trained to be BF/BCs: Vidarbha experience
- Each SHG member to be enabled to have independent account
- SHG Federations have the capacity and wherewithal to function as BCs
- > 1,000 MFIs with their >12,000 branches should also be tapped to take financial inclusion agenda forward
Leveraging microfinance for FI-2

• Cooperatives with their 100,000 outlets should form an essential element of financial inclusion
• NABARD is taking the lead in upgrading them technologically
• Local institutions like NGOs, Farmer Clubs, Producer Groups should be used as BCs/BFs
• Multiple mechanisms should be leveraged to take the financial inclusion agenda forward
Lessons between the South and the North-1

• Community Reinvestment Act 1997 in USA requires banks to offer financial services to local communities
• Law on Exclusion, 1998 in France: Emphasis on individual’s right for a bank account
• German Bankers’ Association’s voluntary code, 1996: Everyman current banking account
• Financial Inclusion Task Force, 2005, UK: To monitor progress of financial inclusion
• Post Office Savings Card-UK
• Savings Gateway-UK
Lessons between the South and the North-2

• Adults with accounts at a formal financial institution: 89 % in high income countries
• But only 33 % in South Asia; 24 % in Sub-Saharan Africa
• Compulsory coaching for microfinance clients and follow-up: France
• Banking Correspondent and Branchless Banking model of Brazil
• Mobile phone based banking in Kenya and South Africa
• Low cost bank account for the excluded: South Africa
Lessons between the South and the North-3

• From India:
  • Bank based microfinance model
  • Formal and informal institutions working together
  • Microfinance as an instrument of community mobilisation and women’s empowerment
  • An apex institution to set policies, facilitate, promote and finance microfinance: NABARD
  • A pro-active role played by central bank in microfinance: Reserve Bank of India
Thank You

satisfp99 [@] usa.net
p.satish [@] nabard.org