

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

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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**

# Self-Help Group alternative-2



- **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 outstandings: \$ 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

## **MFI alternative-2**



- **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**

# Financial Inclusion agenda-2



- 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 BC s 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-1



- **Potential of 8 mln SHGs should be fully exploited for taking financial inclusion agenda forward**
- **SHGs can be trained to be BFs/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

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