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Microfinance in India –
The road traversed and what lies ahead

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1969 – Nationalization of Banks

- 100% government ownership of large banks
- State directed lending
- Increased access of banking services to semi-urban and rural population

1970s to mid 90s: Supply driven measures

- New Institutions – National Bank for Agriculture and Rural Development (NABARD), Regional Rural Banks (RRBs), Local Area Banks (LABs)
- Targets/quota (rural branches, priority sector lending, 'loan-melas')
- Interest rates determined by the State/Reserve Bank of India (RBI)
- Second tranche of bank nationalization

Post 90s: Onus on demand driven measures

- **Indigenous microfinance model :**
  - The 'Self-help Group - Bank Linkage Programme' Model (SHG-BLP) promoted by NABARD.
  - Banks played a passive role, through the SHG-BLP model or through 'outsourcing' route (Banking Correspondents and Banking Facilitators)
  - NGOs, Societies, Trusts, section 25 companies, mainly non-profit entities (MFIs as 'for profit' entities. Example: Non-banking Finance Companies)
- **Reduction in equity stake of the govt. (from 100% to 51%) in public sector banks (PSB), worked against the 'financial Inclusion agenda'.**
  - Compensated by encouraging private and non-formal actors into the microfinance arena – 'SHG Bank Linkage' model and the 'Microfinance' model being the two workhorse models.

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SHG-BLP versus MFIs

SHGs linked to Banks

- Simple rules
- Savings – the starting point
- Credit, loan repayments – flexible, renegotiable
- Access to full range of banking services
- Need hand-holding, mgmt & accounting skills
- Sustainability and self-sufficiency for the group

MFIs

- Intricate rules
- No savings motive
- Credit, loan repayments, terms – rigid rules
- Limited to services offered by the MFI
- Accounts maintained by the MFI field worker
- Sustainability and self-sufficiency for the institution

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SHGs versus MFIs

SHGs

- Existing bank network
- Diffused communities, castes, wealth levels
- Tradition of informal financial Services
- Some local leadership
- NGOs and committed bank staff

MFIs

- Lack of a bank network
- Very poor, homogenous communities
- Few informal credit mechanisms
- Large number of small business opportunities
- Few NGOs

Source: "Self Help Groups and Grameen Bank Groups: What are the differences", Malcolm Harper in *Beyond Micro-Credit – Putting Development Bank into Microfinance* – Thomas Fisher and M.S.Sriram (eds).

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How different is the the Grameen type Microfinance Institutions (MFIs) from SHGs?

SHGs

+ / - Flexible (mini bank by itself)

+ / - Need management, skills and time; depend on good accounts

+ Can access full range of banking services

• Can be captured internally or externally

+ Highly empowering (credit *Plus*)

MFIs

+ / - Interest rates and loan conditions inflexible and rigid

+ / - No need for literacy or for member initiatives; accounts kept by the MFI staff

- Pressure to borrow

+ Protected from internal and external capture; belong to and are supported by the MFO

▪ Only credit disbursements

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2000 – 2010: Crises in the microfinance sector

- High returns ~ rapid growth
- Pressure on the for-Profit MFI model
  - The ICICI bank “distributor” model
  - Crisis in the MFI sector of Andhra Pradesh (Andhra Crisis)
- SHG-BLP plateauing
- Entry of Venture Capital firms, Angel investors and public listing of MFIs

Equity deals in 2009–10 by class of investors

Mainstream investors

Name	Amount US$
Temasek	5,00,00,000.00
Blue Orchard	1,03,34,849.00
Sequoia	94,00,000.00
Treeline Asia	1,00,00,000.00
Individuals	3,19,006.00
Catamaran Venture	60,99,783.00
IFC	5,78,00,000.00
Aavishkaar Goodwell	9,30,521.00
Bajaj Allianz	1,00,00,000.00
Total	15,48,84,159.00
Share	72.8 per cent

Microfinance investors

Name	Amount US$
Dia Vikas	31,50,000.00
Bellwether	4,79,581.00
Microvest Capital	45,00,000.00
Accion Gateway	5,00,000.00
Microventures	34,649.00
DWM Investment	2,08,45,986.00
Unitus Equity	42,50,000.00
Incofin	18,04,522.00
Lok Capital	15,00,000.00
India Microfin Dev Co	1,00,00,000.00
SIDBI	1,07,27,311.00
Total	5,77,92,049.00
Share	28.2 per cent

Post 2010

- On-tap licenses to differentiated Banks
  - Small Finance Banks (SFBs) and Payment Banks
  - For-profit MFIs became SFBs (eg: Ujjivan, Equitas)

- Banks once again emerge as conduit for financial inclusion, albeit in modified forms
  - Pradhan Mantri Jan Dhan Yojana (PMJDY)

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Mainstreaming Financial Inclusion - The Big Question….

- Can ‘Financial Access’ guarantee ‘Financial Inclusion’?
- If yes, how?

Our proposed study and methodology

- Study one typical extant organizational form (banks, others) to compare and contrast their delivery modes of financial inclusion.
  - Methodology: case studies

- Do we see mimetic patterns? And therefore, can we formulate a map of the future financial inclusion scenario, based on the above studies?

- Primary survey of a purposeful set of customers of some of these organizations to understand the needs of (a) the financially excluded (b) those having access but not included (c) small ticket borrowers (SMEs and petty loans).
  - Methodology:- surveys, focus group discussions

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Thank You.

Questions?