Perspectives and Challenges from Across India: Consultative Workshop in Rajasthan

Aravali
M. Titus
Sa-Dhan
Increasing outreach of microfinance in India

A three track approach was envisaged in 1998

- **Encouraging existing & new MFIs through financing and capacity building as also supportive regulatory framework**

- **Incentivising existing mainstream financial institutions (mainly Banks) to provide microfinance**

- **Building a strong demand system in the form of community-based development financial institutions (CBFIs).**
Societies can undertake micro-finance activity — some positive developments for registration and taxation: Direct promotion & linking and direct intermediation.

Interest rate and delivery model subject to bank and ngo-mfi agreement. (Feb. 2000 circulars of the RBI)

MFIs registered under Section 25 companies exempted from NBFC regulation if they do not take deposits

Cumulative lending from banks to the above models is 6372 million till March 2002. FWWB past 750 million. SIDBI past 850 million Rs.

Micro credit and rural finance on the automatic list for foreign equity investment up to 50%

KBS Lab joins SEWA Bank as Mf Banks. For-profit MFIs — only few so far, but now have equity and commercial borrowings of over Rs 100 cr

Insurance sector has 15% target to reach poor/rural clients and are keen to use MFIs as retailers.
2nd Track: Banks and Mainstream fin. Organisations

- Major increase in bank loans to SHGs: crossed Rs 1000 crore and 6 million borrowers
- Interest rates & delivery channel to MFIs according to the bank’s discretion: vary from 13 to 15 % APR. Portfolio comparatively robust
- Banks allowed to treat lending to MFIs as part of priority sector lending. As a result,
- Bank loans to MFIs rise from 10 to Rs 100 crore
- District Co-op Banks too taking the initiative, Bidar for e.g. has outreach of 100,000 clients directly. Sharpening focus on promotions
- HDFC, ICICI, CANARA & OBC undertaking innovative promotion and financing strategies directly with NGOs.
3rd track – Building CBFIs as a demand system

- **Progressive Coop (AP MACS) Act**: 8 states. Also Central Bill under consideration. Producer company legislation passed by the Lok Sabha.

- **Bulk lending to community based or community owned organisations.** NABARD/Banks to these organisations 104 million. (part overlap with earlier figure)

- **Sa-Dhan capacity building** self-assessment of community based organisations complete. Dissemination from December 3rd. Thank both PEDO and Sakhi Samiti from Rajasthan in contributing to the learning.

- **Banks have made a beginning in lending to MACS in AP**
Other Initiatives

- **SIDBI Foundation for Micro-Credit** was set up with Rs 108 crore DFID funds for capacity building and Rs 100 crore soft loan from IFAD for on-lending. Rs 100 crore Microfinance Development Fund has been established under NABARD.

- **Micro-enterprise direct support** for MFOs in place.

- **Industry association Sa-Dhan** is now well recognised and engaged.
  - Empowered Committee headed by Banking Secretary set up in Ministry of Finance. Two senior
Why support the Participation of the Poor in Markets
- The problem of differentiating between good and bad service providers.
- The problem of financial literacy: Understanding product attributes and
- Hence the need for one-time start up funding.

The Product Range on Offer
- The Poor require savings services, as importantly if not more than credit
- The Poor require tailor made insurance products
- Regulatory Framework to deal with both the above

The economic opportunity of Micro-enterprises
- Govt. support in developing rural infrastructure in power, telecom and linkages to markets.
- Further, they require training and other technical assistance. These are “public goods”
- Finally, each region requires state policy and support for economic growth opportunities so that the poor can find employment. This to requires state dialogue and support.
The Intermediation Challenge-II

- Scale of Operations and geographical spread
  - The typical no. of borrowers of sample MFOs in India is no more than 3000 to 4000 with average loan sizes of just Rs. 2500-3500.

- MIS and Portfolio quality
  - Client information needs enhancement, together with operational information to enable accurate decision making. Given that only 20% of the sample MFOs have adequate systems, we believe that this is one area for quick and large support for hardware and software.

- Financial Control Systems
  - While financial control and audit systems were in place; internal audit and other verificatory mechanisms need strengthening. Only 39% have system of internal audit in place. Liquidity management is also an area of concern in the operations of many MFOs with inefficiencies in sourcing of funds from lender or donors, in the transfer of cash between branches and head office, and in placing idle funds in short term investments.

- Mixing Development orientation with robust financial disciplines for CEOs
The Regulatory Beginning

Stage 1 - Preparation

Stage 2 - Gathering information/Building competencies

Stage 3 - Identifying standards/Establishing Rules

Stage 4 - Full-fledged regulatory activities
Future Directions

- Quality of SHG promotion will have to be consistent
- Support for micro-enterprise and work with governments in building rural infrastructure will have to increase
- Grant funding for expanding and starting new work in different regions of the country
- New financial instruments to capitalise all legal forms of entities
- Regulatory, Supervisory & Policy framework will have to be robust and simple.