Conclusions and Policy Implications

6.1 Introduction:

Microfinance is an important aspect of strategies that can help to even out the gender dimensions of poverty. As is evident from the study, economic empowerment forms the cornerstone for facilitating other aspects of empowerment. In fact, it can suffice to state that any discourse about gender empowerment without plausible solutions to boost the economic position of a poor woman would be like a body without a soul: lifeless and prone to decay if not disposed off quickly and effectively.

Unfortunately the specter of financial inclusion initiatives in the Indian context has been documented copiously and repeatedly. While there is a cognizance of the fact that microfinance is more than just credit not enough detailing seems to have gone into thinking about how all these ‘plus services’\(^1\) are going to actually be procured, managed, paid for and upgraded. Although banks have been considered as the most suitable entities to bridge the last mile gap (given the Indian banking history which is dotted with forays of policy to promote social banking followed by a market driven orientation) the fact is that the base of the pyramid sector is not a focus area for commercial banks. There are various reasons for this: (a) high transaction costs, (b) low value accounts, (c) absence of collateral, (d) availability of segues such as funding MFI organizations or NABARDs Rural Infrastructure Development Fund which are relatively less cumbersome to manage as compared to entering into this space directly, (e) lack of commercial bankers who are also capable of transitioning into the financial inclusion space effectively.

This task has therefore fallen upon the ‘others’ which comprise NGO’s and NBFC’s who help to connect the financially excluded and the weaker sections of the society to institutionalized savings and credit options. Within the large category of microfinance institutions, there are variations regarding their constitution, governance funding etc. This further exposes the base of the pyramid to the predatory practices of usurious MFIs, as was seen during the Andhra Pradesh microfinance crisis in 2010.

\(^1\) The Report of the Sub-Committee of the Central Board of Directors of the RBI to Study Issues and Concerns in the MFI Sector dated January 2011 states that microfinance covers a range of services which include in addition to credit many other services such as savings, insurance, money transfers, counseling etc.
As has emerged from the course of this study availability of market linkages can eventually help a microfinance transition out from being dependent upon subsidized sources of credit to self-reliance. In fact, for the microfinance movement to encompass more needy members, it is important that its sphere of influence increases and that members who have got this support eventually graduate out due to enhanced income levels that may be generated by skill / education enhancement or access to fair labour markets The road thus far and a review of related literature on the progress towards the goal of providing financial inclusion opportunities to India’s poor has been documented in Chapters 1 to 4.

The following section presents some policy recommendations that can enable organizations like GMSS (SHG Federation) and Annapurna (JLG Model) become far more effective in helping their member groups on pursuing a path of economic empowerment and leading up to ‘positive freedom’ or empowerment as envisaged by (Sen, 1987).

6.2 The Way Forward:

1. **Structure:** If banks want to sincerely pursue the agenda, there is a need to revamp the existing structure – however every bank will have to adopt a structure that suits its business model and accomplishes this objective.
   
   a. *Review their HR policies with respect to recruitment of staff:* Banking correspondents can be appointed (on contract basis) from within the cadre of such mature community based microfinance institutions like Annapurna or GMSS. Such members will require minimal training due to their extensive work experience and for them an opportunity of this nature can be a big step in hastening their transition towards self-reliance as well become socially relevant.

   b. *Having a known face such as a peer group member can also help to make the experience of bank interaction a pleasant one for other lesser privileged members.* As was discussed in the previous chapter, as of now the banking experience for most poor women can tend to become a difficult one: not equipped with the necessary knowledge about banking products, coupled with less education can make the process of banking a difficult one. For bank officials to have a cadre of women BCs sourced from and catering exclusively to a segment of a similar profile can help not only to improve the overall banking experience but also to secure useful feedback which it may be missing out in the present context. This feedback can be deployed for improving/ designing products and services.
2. **Self Help Group Promoting Institutions: Sustaining Institutions with a demonstrated track-record**: In course of our study, we learnt that the process of creating an SHG cluster and stabilizing it takes a minimum of anywhere from 2-3 years of consistent inputs and support right from forming SHG groups, nurturing them and bringing them up to a point that they become stable. This is a cost that the SHG promoting entity bears under the present scenario. This puts a lot of strain on the already stretched resources of the promoting entity. The women’s self-help group programme has expanded the scope of SHG promoting institutions to morph into harbingers of an eco-system that promotes women’s empowerment through fostering credit, savings and the entire gamut of other holistic services. Hence the apex bank should view the institution building role of such SHG promoting entities and support them via resources which they lack. This can help to make this process sustainable and also help banks inherit healthy groups which in turn will minimize defaults and NPAs subsequently.

3. **Linkage with a Common Credit Database**: At the time that this study was carried out, there was no precedent to undertake a background check for SHG/JLG groups in order to identify cases of: ‘multiple loans’ (loans taken from more than one institution) or even understand the exposure to a family unit (lending to a family unit by multiple microfinance institutions). **Annapurna** was taking a self-declaration at the time of the study, having a common reservoir of data via a common credit database can facilitate the identification of such ‘double dipping’ at an individual level or even at a family unit level. Using data collected by such designated credit bureaus and conducting analytics on the same can help to identify a variety of borrowing trends which in turn can form the basis of policy formation and product development.

4. **Facilitating Market Linkages**: Tapping synergies of the mandatory CSR: Commercial banks have a large portfolio of companies that can be connected with institutions that have displayed a demonstrated track record of creating sustainable microfinance groups. This can result in utilizing the synergies of both the parties to create a win-win situation for both the parties namely: it will allow such large corporations to spend their CSR funds in an effective manner and it will give the poor

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2 When the author checked back recently she found Annapurna had started using the services of a credit bureau called Credit Zero. As a part of their lending process, the borrowers’ KYC data is obtained and the credit bureau checks to identify cases wherein the borrower has taken funds from more than one microfinance institution. This process was started in early 2015 by Annapurna.
a chance to tap into the expertise and the organizational skills and set-up that large corporations possess.

5 **Development of a Social Credits Mechanism:** This point is related to point 4 stated above. An option of developing a social credits mechanism can be considered – this can enable matching organizations like GMSS and AMCCS whose possess a rich wealth of grassroots experience with investors interested in supporting such initiatives (be it corporate, private investors, NRI’s etc.) so as to foster a culture of meritocracy and build upon the synergies of various participating stakeholders. For example, GMSS can get such funds to upgrade its IT infrastructure and buffer up on connecting its multiple locations via computers and internet, which are outdated at present. In case of AMCCS, this can help in improving the mobility of its office bearers who travel on foot for collecting the instalments and then deposit the funds into a bank. Providing a two-wheeler can help to enhance the productivity of the collecting agent and enable coverage of a wider set of needy women. It can also bring in the much-needed system of performance coupled with a focus on profitability (Yunus, Moingeon, & Lehmann-Ortega, 2010). The all women managed community based microfinance models as seen in the case of GMSS in the Vetale village cluster or by AMCCS in the slums of Pune city is different from the ‘for profit’ models (Sriram, 2010). Such ‘for profit’ models were accused of using the poor to make money, through a network of agents (usually male) and which were blamed for precipitating the microfinance crisis in Andhra Pradesh (Ramchandani A, 2010). It is also a good antidote against the drawbacks of microfinance as described by Goetz (1996) and Parmar (2003) which leave women ‘deprived of agency’ and ‘disserviced’.

6 **Devising a vibrant alternative to the RIDF:** Under the current system commercial banks must invest 40% of their funds in the RIDF in order to meet the priority sector lending targets. The main purpose of creating the RIDF was to allow states to get funds for quick completion of ongoing projects. However over the years, it has transformed into an assured form of grants/subsidies to the states rather than enhance credit absorption through business generation. Introducing tradeable priority sector lending instruments (PSL) can help to invigorate banking sector and see a greater participation especially from foreign banks.
Cluster Development (at Rural and Urban Level): At the rural level, these clusters can be used to develop Cottage industries that promote local arts and craft synonymous with that state or connect such ‘primed clusters’ with export opportunities/corporates. At the urban level clusters that encourage small scale service/manufacturing enterprises that can help to generate employment. A typical example is the Dharavi cluster in Mumbai which is known for its leather work. A cluster based approach in lending can help to: (a) develop and administer well designed products to suit such homogenous groups, (b) reduce the costs of transaction for banks, (c) help in ensuring the availability of appropriate information for risk assessment, (d) help to achieve reduction in costs, (e) help to preserve the local culture and heritage of such areas. The close connect of institutions like GMSS and Annapurna with the grassroots can help banks save time and costs by leveraging on their breadth of knowledge regarding the typical problems and requirements of such clusters.

Creating a Framework for Improving the bargaining Power of the Urban Poor:"
As stated in the previous chapter, getting a fair wage in the urban context is often contingent upon a variety of factors such as: (a) demand and supply of labour of a similar calibre, (b) facilitators/ institutions of collective bargaining, (c) bridging of information asymmetries by making knowledge of government sponsored programmes publicly available. Institutions like Annapurna which have a long standing connect with the urban poor can play a vital role along with banks if an appropriate mandate is given to them. Creation of urban ‘community level federations’ can help to overcome the problem of ‘flat’ structure as described in the previous chapter as well as play a leading role at the state level in the co-ordination, dissemination of inputs, training, funds and support of government programmes like SJSRY. Spurring of small business enterprises can help to accelerate the effects of microfinance – savings and loans can be used as a buffer against crisis rather than for consumption purpose and also as a stepping stone towards further economic enhancement.

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3 The United Nations Industrial Development Organisation (UNIDO) has identified 388 clusters spread over 21 states across various parts of the country. The Ministry of Micro, Small and Medium Enterprises also has an approved list of clusters under the Scheme of Fund for Regeneration of Traditional Industries and the Micro and Small Enterprises Cluster Development Program (MSE-CDP) located in 121 Minority Concentration Districts.
9 Greater focus on developing Micro small & Medium Enterprises (MSMEs):
Although often relegated into the side lines the MSME’s comprising on small neighbourhood businesses like small shops and stalls make a significant contribution to the nations GDP (an estimated of 5% of the country’s GDP, 45% of the manufactured output and about 40% of the nation’s exports). According to the 4th All-India Census of the MSMEs, there are about 26 million such enterprises in the country which provide employment to an estimated 60 million persons. Of these 26 million, only about 1.5 million are in the registered segment while the remaining approximately 25 million (94%) are in the unregistered segment. The state-wise distribution of MSMEs shows that more than 55 per cent of these enterprises are in 6 states and Maharashtra is placed in the second position in this ranking. However data also shows that few MSMEs are owned by women. Even those that are owned (as were covered in this study) often struggle to meet working capital requirements and usually access funds borrowed from personal or informal sources due to an inability to produce the necessary documentation in order to access the banking system. Other problems that plague this sector are the seasonal nature of some of the businesses, heterogeneity and the lack of mainstream options resulting in the creation of ‘extra-legal’ arrangements to solve the issues surrounding their existence.

10 Cash Incentives to strengthen Community Based Microfinance like GMSS and Annapurna who possess the vintage and track-record of demonstrated commitment to alleviate gender based poverty:

a) One of the main constraining factors affecting community based microfinance institutions like Annapurna and GMSS is the squeeze on the available funds. They struggle to get qualified staff, pay them market rate salaries, replenish and upgrade infrastructure all alongside the business demands associated with growing their client portfolio. Borrowing from banks comes at a cost which further adds to the expense burden.

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4 The Peruvian economist Hernando de Soto highlighted the issues surrounding a vibrant informal sector whose participants remain on the fringes. Such individuals remain excluded from formal sources of credit, financial institutions and legal protection. They often have to sell the very businesses that support them in order to survive. They cannot access the legal system to seek remedies nor do they have legal ownership because they operate under the shadows of the mainstream business options, they often get excluded from the tax radar. To survive and to protect their meagre assets the extra-legal’ individuals create their own set of socio, economic and political rules. Such a parallel set of rules affects the mainstream economy in the long run. Hence appropriate channelization of such initiatives through the creation of formal structures that promote MSMEs can help to prevent a society that is dealing with massive issues of crime.
b) Both these models not only compete with each other “across competition” but even within each category there is a stiff competition for retaining a healthy portfolio. The Microfinance India: A State of the Sector Report 2010 documented the cases noticed pan India wherein established SHG groups were splitting up to form themselves into JLGs in order to avail larger ticket –shorter tenure loans. The need for survival can therefore force such grassroots level institutions that are surviving on a tight budget to resort to alternate means. This was noticed during the 2010 Andhra Pradesh microfinance crisis. The NBFCs operating in this space originally started off as NGOs, however they found their existing resources inadequate to cope with the growth in their portfolio. Hence some of them converted themselves into ‘for-profit’ entities, while some others entered the field directly as ‘for-profit’ entities. Significant amount of foreign private equity funds, coupled with the facility to seek refinance against the existing microfinance portfolio resulted in a vicious circle that assumed mammoth proportions and eventually resulted in a loss of more than 35,000 jobs\(^5\) and NPAs amounting to over INR 5000 crores.

Providing a recognition in terms of cash incentives administered through a proper banking channel can help to (a) highlight the MFIs that are actually working in the trenches and making a positive difference and (b) inspire more such initiatives and best practices.

11 Need for a Regulatory Body to address / guide the plethora of institutions: There are many institutions working in the area of gender based poverty alleviation. However they all have different business constitution and have been set-up under different legal forms. For e.g.: Annapurna’s microfinance arm is constituted as a multi-state co-operative credit society while GMSS is constituted in accordance with the provisions of the Bombay Public Charitable Trust Act 1950. While the Malegam Committee carved out a separate category called the NBFC-MFIs and set up guidelines for them, there are other institutions such as the ones studied that need to be covered under a regulatory framework.

12 Reducing the geographical and financial concentration of MF activity: As is evident in the data pertaining to the microfinance sector in India, there is a concentration of such activity in the South (mainly Andhra Pradesh) and East (West

Bengal). This overt concentration can again result in the concentration of of the operations, credit & portfolio risk and create conditions of disequilibrium in the sector.

6.3 Limitations of this Study & Scope for further research:

As any other study this one too has its share of limitations. It is based on one district and covers the members of affiliated to a single organization. Since this is a self-funded study, resource constraints in the light of the turbulence going on in the sector at the time, was a huge strain. Repeated trips to the village and the slums were necessitated to inspire confidence among the members and also to accommodate their work schedules. A study involving similar models in other parts of India can help to facilitate a better understanding the experiences of the members and their reactions. Similarly a comparison between different models can also help to get a clearer idea of the efficacy of one model over the other in facilitating the journey towards the destination of empowerment.

Microfinance is an important plank to support the financial inclusion and facilitate women empowerment. The main takeaways of this study are that the edifice of any such initiatives is required to be built upon more than credit handouts. They need to have the ingredients that help a poor women secure an ability to have the ‘power to’ change the status quo: a large part of that revolved around creating an eco-system that facilitates economic self-reliance. The irony is that while there exist many arrows in the quiver of the regulating agencies to make this happen, they are still dependent upon the commercial banking system execution its here that the arrows fail to reach their mark due to a variety of factors. Institutions like Annapurna and GMSS in the meantime continue to work in the side-lines in trying to work with an NGO mind-set and to do what they possibly can to mitigate the condition of the poor women in the rural and urban areas. While their work is admirable, they are still able to impact only a small pocket of a larger terrain which can benefit from the experience. In the meanwhile a lot of (unnecessary) funds continue to be spent in the name of CSR, last mile connectivity through deployment of banking correspondents and complex software which is often purchased with the intention of slicing and dicing data and figures. What is really needed is a combination of resources, professionalism and innovative approaches – to turn the tables and make this a win-win situation for all the stakeholders (viz bankers, RBI, NGOs and above all the beneficiary women). This is certainly a difficult task but not an impossible one.

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