Chapter 9: Suggestions and Long-Term Perspective

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SUGGESTIONS AND LONG-TERM PERSPECTIVE

The real challenge before the banking system is to transform the poverty alleviation programmes to a corporate goal rather than participating in such programmes by compulsion. If only banks could be provided with a policy environment which would enable them to evolve such systems of delivery/intermediation for providing microfinance in general, and financial services to the poor in particular. This would meet the requirements of millions of poor and poor women, whose labour and talent can be channelised for empowerment of their selves, their families, their societies and the nation. Till such time, perhaps, inspite of various reforms and liberalisation in the banking system, some sort of directed credit for the unserved will surely be relevant.

While the formal banking system would continue to play a significant role, alongside, it would be necessary to facilitate the promotion of new types of microfinance institutions. While some institutions and systems may develop and grow, the formal banking system will have to continuous to play an important role in providing microfinance to the poor. This would be possible through development of a sound delivery system like formation, nurturing and linking of SHGs and forging an alliance with emerging NGOs and MFI. The Honourable Union Finance Minister has indicated that the Indian Banking System will link
200,000 groups by 2003. To achieve such ambitious targets, enormous upscaling of linkage programmes is called for. The existing limited network of and capacity of NGOs may not be adequate for this, and bank must also gear up their own initiatives in a big way.

9.1 Some Critical Issues

9.1.1 Organisational Design

Evolving or readjusting organisational structure to promote microfinance is an urgent concern. While most of the rural branches are providing microfinance in India as part of their product lines, there is no special focus on the product. For achieving viability in operations, the structural innovations must focus on a continuous optimisation of lender transaction costs and minimising borrower transaction costs. The banking operations, in my opinion, should be divided into business units such as:

1. Micro Banking
2. Retail Banking
3. Corporate Banking
4. Investment Banking.

Each unit should operate as a profit center. The Micro Banking unit should have a microfinance mission with the objective of empowering the poor, and poor
women, and should sustain viable banking operations, unlike the one shot operation of IRDP.

9.1.2 Product Design

Selling rather than marketing has been the major weakness of the Indian rural banking units. The product designs now will have to be appropriately tailored to the clients' needs. For this purpose, appropriate marketing research should be initiated to study the poor clients' needs, and to design relevant products. In fact, this is where empowerment from bottom-up, by setting up "organisations of the people, for the people and by the people" becomes significant.

9.1.3 Access at What Cost

It is necessary that the lending institutions constantly innovate and improve cost optimisation, so that financial services can be provided to the poor at an interest rate which will encourage investment and growth. Inefficiencies in the banking sector cannot be passed on to poor clients in the form of loans at high interest rates. If this continues to happen, then microfinance initiatives and their expected impact on empowerment of the poor will remain elusive.

9.1.4 Beyond Access, Livelihood
Promotion of livelihood through microfinance would call not only for the provision of credit, but also non-financial services such as inputs and marketing support. Banks will need to diversify into marketing as well as rural communication system for providing livelihoods.

9.1.5 Graduation

The best indicator of linkage is the extent of dependency created with the groups linked. The SHGs should be facilitated to manage their affairs and be respectable clients with the bank without prolonged dependence on external guidance. The very objective of providing initial hand-holding assistance is to make, and every member of the group, them self-reliant and empowered, to enable them to conduct their affairs and to graduate beyond survival loans.

9.1.6 State has a Role

The government is a major stakeholder in the human development and building up of human capital. As the Nobel Laureate for Economics, 1998, Prof. Amartya Sen says "the government has to play a corrective role in moderating the distortions of the market, particularly in the area of human capacity building". It is felt that both the government and the RBI have an important role to play in evolving a viable and vibrant system for banking with the poor, by suitable policy interventions and support. While subsidies should not form a part of the lending
process, there is a strong case for governmental funding for human capital formation and public resources support are required for institutional innovation. In this context, the cost of formation of SHGs could be treated as part of social empowerment costs towards human capital building and to that extent, they could be funded by the government to the Self-Help Promoting Institutes (SHPIs), probably by earmarking part of the funds of IRDP. It will also be appropriate for the State to evolve a legal framework for facilitating emergence of MFIs.

9.1.7 Incentive Systems

It is unthinkable to have successful microfinance practitioners without proper incentive systems in place. In this connection, The banks should devise and adopt an incentive plan for the employees and clients both for loan and for deposit products.

9.1.8 Documentation of Best Practices in Microfinance

Several interesting and innovative microfinance technologies are being practised today in different parts of the world. While there can be no technology that can be replicated and adopted without relating it to the cultural and the socio-economic aspects of any community, it would be judicious if successful and unsuccessful practices are examined critically for determinants of
successes and failures. Documentation of such experiences will be enormously useful for successful dissemination and practice.

9.2 Kickstarting Microfinance

Kickstarting microfinance is the real challenge facing Indian Bankers. The research undertaken shows that this calls for a paradigm shift in the Indian Banking System, in terms of attitudes, innovations and alliances.

Firstly, the attitude towards the bankability of the poor needs a shift- bankers need to realise that financing the poor is an attractive business opportunity, that can be profitable both for the bank and the client. This has been proved beyond doubt by the experimentations of Bangladesh Grameen bank, Bank Rakyat Indonesia, and closer home, Gurgaon Gramin bank. Bringing about such organisation-wide attitudinal reorientation- from the top level executives to the front line officers in rural banks- amidst tighter prudential norms and legacy of high overdues, is a challenge by itself. The critical constraint in mainstreaming microcredit is capacity building-both commitment building and competence building.

Secondly, the right attitude should be supported by innovations in design and delivery of financial services in tune with the needs of the clientele. Marketing innovations are required in designing appropriate financial services for the poor,
and this is more important when the target group is poor women, and delivering
them. While some Indian banks have started innovative microfinance practices,
there is a great learning opportunity from cross-country experiences- Indonesia,
Bangladesh, Kenya, Bolivia, Sri Lanka etc. The challenge for Indian bankers is
to learn and replicate such innovations, as also nurture an environment of
innovation within their own organisations, leading to widening and deepening of
microfinance services.

Thirdly, given the enormous task of reaching over hundred million poor people,
and the temporal constraints, a collective action would be required- Indian
Banks have strength in terms of resources and network, and NGOs/SHPs/MFIs
have their strength in intermediation/participation skills. Therefore, the Indian
banks should be in a position to forge strategic alliances with NGOs and MFIs
for enhancing access of the poor and poor women to financial services, by
synergising each others’ strengths.

9.2.1 Microfinance Foundation of India

There is the need for establishment of a focus organisation for microfinance,
which would be called Microfinance Foundation of India (MfOl) for capacity
building, supporting various development initiatives, planning and coordination.
Such an organisation can also work for coalition building among NGOs-Banks-
Governments. NABARD has taken a view to promote such an institution,
possibly in collaboration with major financial institutions. It is learnt that the government and RBI are not very enthusiastic about it. It is felt that such an institution is essential and pivotal for propagation of microfinance in the country. Though the initial capital may come from NABARD and other financial institutions, the organisation should be self-governing and autonomous, with progressive participation of MFIs over the years so that NABARD and the other financial institutions can slowly withdraw.

9.2.2 Open Doors to Private Initiative

Besides the initiatives required on the part of the Indians Banks, and the alliance that needs to be forged between banks and NGOs/MFIs, the Indian corporates can also become major players in the field of microfinance. One such initiative from Hindustan Lever Limited is Project Shakti (Appendix3).

It clearly emerges from the foregoing paragraphs that in certain cases, government intervention is needed in achieving the objective of promoting financial intermediation for poverty alleviation and economic empowerment of the poor. In some other cases, the direct intervention of the government tends to be counterproductive, and acts as a retardant. It is very important that the role of the government sector, the private sector, and the emerging informal sector is understood and respected by each with a good deal of camaraderie. With a view to optimising the aggregate positive impact of the efforts of the
government, the private sector and the informal sector, the need of the hour is a search for a role equilibrium, in the light of the experiences in microfinance for poverty alleviation and economic empowerment in different developing countries. Obviously, this cannot be a static concept. To be meaningful, the search has to be continuous in the socio-economic dynamics of those groups for whom a solution is being sought.