



## SCOPE ENLARGEMENT OF MICROFINANCE THROUGH OPTIMUM USE OF EXISTING INFRASTRUCTURE AND MANPOWER

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*Indian economy is rapidly advancing towards the evolution curve. However this growth story is not a holistic one with uneven growth across geographical regions, income groups, asset holding etc. A large chunk of population especially the vulnerable groups are still excluded from the basic financial assistance and opportunities. The primary question is how much has India's rural population benefitted from this growth, both quantitatively and qualitatively? For real advancement, we need to ensure participation across states, regions, sectors of the economy. Currently there exists an assumption that if the Gross National Product of a country accelerates, the poor are automatically benefitted. The irony is that, often it is reverse, i.e. the rich get richer and the poor get poorer. For real advancement, development parameters need to be redefined. It should have a social and a human rights angle. Development would be the upliftment of the bottom 50% of the population. Empowerment can be best reinforced by providing financial services to the marginalized segments of population. The untapped money of the lower income group will be channelized into the economy with the help of financial inclusion.*

*In today's world Microfinance and Financial Inclusion are the buzzwords. A lot of work has been done in this direction and Microfinance Institutions have sprung up everywhere. A substantial amount of money is utilized for establishing these setups. Also, the cost of building infrastructure in the remote areas is huge due to which these areas are often ignored. From demand point of view these areas have the neediest customers. In this article we have tried to establish the importance of using existing infrastructure and personnel of the Post Office under the Business Facilitator model to reach out to the underprivileged. Such a pilot project had been undertaken by NABARD in 2006 but not replicated in eastern India.*

**Keywords – Financial Inclusion, Self Help Groups, NGO's, NABARD.**

### **Introduction**

Microfinance is specialized branch of banking which has a social perspective. Microfinance is based on the concept that economically weaker people have the capability to lift themselves out of poverty, if they have access to affordable loans. They have exceptional talent and are assiduous in any livelihood activity they undertake. However they were categorized as non-lucrative potential customers by traditional banks as these small loans accompany high administrative cost and repayment risks. Also the poor people do not have much to offer as collateral; often the title of land is not clear. Most of them do not have any past credit records. They are illiterate and cannot read and understand loan and other financial documents. Neither do they have proper employment history. But the success of Grameen Bank model at Bangladesh has reiterated the fact that the poorest of poor can be empowered with a little support and guidance. Microcredit in simple terms means providing small loans to the under privileged population, to upgrade small enterprises, who otherwise are denied of conventional loans. Microfinance is a wider concept and apart from

credit it encompasses savings, insurance, funds-transfer, pension etc. It is an indispensable tool for economic development through support of grass root level micro-entrepreneurs. In the long run it helps them to raise income, provide better education to children, build up assets and provide cushion for unforeseen calamities. Microcredit alone is not an answer to poverty; however it is an important tool to make the poor self-reliant which in turn helps them to uplift their economic and social status. This business approach of microfinance has helped millions of poor to establish their own micro enterprises and uplift their financial and social status. Microfinance is a unique solution as it stresses on saving habit. The members are encouraged to save and upon accumulation of a substantial corpus, they are lent money in tune with their requirements.

In spite of its vital role in social upliftment, microfinance still remains a meager portion of the total loans given by Banks in India. Its share was less than one percent of the total disbursed credit in 2007 .

Currently there are two basic mechanisms of delivery of microfinance to the marginalized.

1. Finance to individual entrepreneurs.
2. Finance to Self Help Groups. This model is preferred as it mitigates risk and lowers transaction cost.

A Self Help Group is a voluntary association of 10 to 20 members (mostly women from similar background) who pool in their financial resources to avail credit from Microfinance Institutions, NGO's and Banks. The SHG promotes its members to regularly save small amount of money and then lends this money together with money availed from Bank to the needy members. The members assure their trustworthiness to each other over time and out of fear of "naming-shaming" policy. This group model relies on peer pressure to ensure that the borrowers develop regular savings habit, utilize the money for income generating activities, observe strict discipline in timely repayment and eventually establish good credit standing. Mostly women, in numbers of 5 to 15, from similar socio economic background form these groups, thus strengthening solidarity among them. The significance of the SHG-Bank linkage movement can be gauged by the fact that today, it forms an integral element of all poverty alleviation programs of both State and Central government.

The primary focus of Microfinance Institutions has been upliftment of poor in general and women in particular. Women have been the focal point due to the following reasons:

1. Poverty has a feminine face. Since time immemorial women have been deprived of capabilities, have been subjected to gender biases and excluded culturally and socially. It is not only a result of low income or lack of income but also due to lack of command over resources. They are often denied of the recognition of their efforts put into bringing up children or household work mostly because these are deemed to be non-income generating activities.
2. Women are more likely to utilize their loans for productive purposes hence having a 'trickling down effect'. Poor men in rural areas have a tendency to spend the money on alcohol and other non-necessities. However the mother always puts her children

and family before her and would strive to ensure better food, health, education and standard of living for her children.

3. Lastly these women have had a better and timely track record of repayment of loans. Out of the total 8.36 million borrowers of Grameen Bank at Bangladesh, 96 % are women. (source: [www.grameen-info.org](http://www.grameen-info.org)).

### **Low Penetration Level Of Microfinance**

In a country like India, where almost 30% of population lives below poverty line (source: <http://data.worldbank.org/country/india>), Microfinance is an indispensable tool for poverty eradication. The antecedent of Microfinance is undoubtedly the cooperative movement which started around 1904. Financial inclusion of the poor was one of the primary objectives of the Government of India when, in 1969 it nationalized 14 major private sector banks. To provide further impetus to the movement Regional Rural Banks were established in 1975, followed by NABARD in 1982 and Self Help Group Bank Linkage Programme in 1992 .

In India there are 1659 registered MFI giving a total credit allotment of Rupees 13995 Crores. (Source: [www.thehindu.com>business>economy](http://www.thehindu.com/business/economy), February 28th 2011) Hence on an average 1 MFI disburses Rupees 8.2 Crores & covers 384 villages, the total no. of villages being 6, 38,365. (Source: [www.censusindia.gov.in](http://www.censusindia.gov.in)) Here it can be clearly seen that the village level penetration of MFI is significantly low because of which many villages are being barred of availing the benefits of Microfinance. Microenterprises and small entrepreneurs are devoid of the financial support for boosting their businesses. Hence the challenge lies in making microfinance services available to maximum number of villages with optimum utilization of readily available existing infrastructure. For expanding the outreach of microfinance, we need to focus beyond the current Banking and MFI channels.

### **Business Facilitator / Correspondent Model**

To magnify the reach of Scheduled Commercial Banks for providing banking services to the remotest corner of the country, RBI has recommended the Business Facilitator and Business Correspondent Model vide its circular number DBOD.No.BL.BC. 58/22.01.001/2005-2006. According to the guidelines, the Business Correspondents can carry out financial transactions of the Banks as their agents, whereas the Business Facilitators can refer clients, check documents, but cannot carry out financial transactions.

Just as the telecom revolution has introduced rapid communication through mobile phones to the common-man, likewise, banking through Business Correspondent model would ensure availability of banking services to far-flung areas of the country. Under this model, Banks may use the services of intermediaries for providing banking and facilitation services such as collection and processing of loan applications, verification of primary documents, educating customers about various products/ services, post sanction monitoring, loan recovery follow-up, sale of micro insurance, small value remittances etc. Under this arrangement the Banks may pay commission/ fee to the Business Facilitator/ Correspondent. Depending upon their comfort level, the Banks can decide upon the intermediaries such as Cooperatives, Community Based Organizations (CBO), Village Panchayats, Agri-Business

centers, Post Offices, NGO's etc. Through its revised guidelines issued in 2010-11, the RBI has permitted Banks to include companies registered under The Indian Companies Act, 1956 (excluding Non-Banking Financial Companies) to act as Business Correspondents. NGO's have played an exemplary role in linking SHG's to Banks but there is limited scope for further expanding their outreach across different geographical regions in view of limited financial, infrastructural and human resources. One aspect which needs attention is that the commission and incentives for the Business Correspondents needs to be fitting so as to attract and sustain them towards this business model. Although a lot is being done to effectively implement the BC model yet there are some crucial issues which need to be address at the earliest. Suitable decisions need to be made regarding commission rates offered to BC's, client awareness level of BC's, technological support, proper training of BC personnel etc. Financial sustainability is a vital issue when we consider Business Correspondent model or Microfinance Institutions. It implies covering all costs of business operations and continued provision of services to the poor. Technology has to be suitably used for cost effective delivery of small ticket transactions in high volumes, so as to reap the benefits of economies of scale.

When we talk of Business Correspondents the primary deciding factor becomes outreach. An institution which has the maximum reach in rural India is undoubtedly the Post Office. It is uniquely positioned to reach to the poor and hence can play an influential role in financial inclusion. It has attained a six fold growth since independence and 1 out of every 6 Indian is comfortable and conversant with Post Office banking operations . Currently there are 1, 55,333 post offices in India, of which 1, 39,074 (89.5%) are in rural areas and 16,259 in urban areas (10.5%). Hence we see that there is 1 post office in every 4.5 villages as compared to 1 Microfinance Institution (MFI) covering 384 villages . Post Office's outreach vis-à-vis Scheduled Commercial Banks and other financial institutions in financially excluded regions is remarkable. Delegating identified banking operations to Post Office will ensure financial inclusion of unbanked pockets of the country.

#### **Decline In Post Office's Traditional Business**

The Indian Postal Service has an impressive history but today the traditional business of Post Office, which used to be mail delivery, has shrunk with the entry of many private players and advancement of technology. This phenomenon is not confined to India alone but other countries are also facing a similar problem. Today couriers and email has replaced the customary inland and postcards. Businesses and consumers are progressing to the latest available technology and solutions. To keep pace with the changing technology and business environment, post offices should broaden its gamut of services and diversify its portfolio. The huge fixed cost in infrastructure, computers and operating costs of salaries, monthly bills can be justified only by optimum utilization of these resources.

In view of its wide outreach, the post office has been entrusted with additional duties like payment of wages of MGNREGA beneficiaries and benefits of other social security pension schemes. (Source: [www.nabard.org/microfinance/postoffice.asp](http://www.nabard.org/microfinance/postoffice.asp))

Given its high degree of credibility and vast outreach, India Post can play a vital role in

rural development. It can work as intermediaries and supplement the arena of existing microfinance services. Financial inclusion of excluded households of remote areas can be achieved by providing microcredit by post offices as they are uniquely positioned. The rural postmaster and postman are from the local community and are easily approachable, have basic details of their clientele hence enhancing the acceptability of microfinance services. The Gram Panchayat can play an important role in building awareness of products offered by the Post Office.

To tap the potential of microfinance sector for financial inclusion, NABARD launched a pilot project on SHG Post Office Linkage Program in 5 districts of Tamil Nadu in 2006. (Source: [www.nabard.org/microfinance/postoffice.asp](http://www.nabard.org/microfinance/postoffice.asp)). However it is to be noticed that on a whole, the Southern states account for a massive chunk of the credit linkage programs. The project was also launched in Meghalaya in 2007 but a major part of North Eastern, Eastern and Central regions are yet facing the brunt of financial exclusion. Here it is interesting to note that there exists huge disparity and regional variations among the different states in terms of poverty. Six of India's low income states namely Bihar, Jharkhand, Odisha, Chhattisgarh, Madhya Pradesh and Uttar Pradesh account for more than one third of India's population. (Source: [http://en.wikipedia.org/wiki/Economy\\_of\\_India](http://en.wikipedia.org/wiki/Economy_of_India)). The more backward the region, the greater is the extent of financial exclusion.

### **Banking Avenues for Post Office**

The postal department has been considering the idea of entering into the retail banking and with RBI giving new licenses for opening Banks, the department is in the process of finalizing the blueprint of setting up the Post Bank of India. It already has a Balance Sheet of Rupees 6.18 lakh Crores, which includes deposits of Rupees 5.5 lakh Crores (Source: Times Of India, 15th Mar 13, Page 10). As existing Post Offices will be repositioned as Banks, hence no additional cost of building & infrastructure will be required. Rural Finance Access Survey (2004) of the World Bank has emphasized that in rural India post office branches have greater penetration levels as compared to Bank branches. Setting up of Post Bank of India will benefit rural consumers enormously ensuring financial inclusion even in the remotest corner of the country. The proposed bank can serve as a one-stop-shop for a variety of financial services and Microfinance will be one of them. The village people by virtue of being poor and illiterate have been denied of fair credit since time immemorial. The irony is that the world's poorest are charged the world's highest rate of interest. The poorer the borrower, the higher is the rate of interest. These extortionate rates have become a norm in the developing countries, so much so, that even the borrower does not negotiate. Such high rate of interest defeats its effectiveness as a tool to eradicate poverty. The marginalized have been exploited by the local "loan sharks" by having to pay exploitative rates of interest. However they continue to be preferred among the rural masses due to their accessibility and quick disbursement of credit. Hence offering of financial services by the post office will be a welcome idea for the rural population.

### **Challenges Ahead**

Although India Post has impressive statistics in terms of rural reach yet there are constraints

which need to be addressed suitably before it forays into microfinance sector. The present regulatory framework doesn't allow India Post to provide credit. Hence primarily, there needs to be proper guideline and policy changes by concerned Ministry. The Government is already in process of doing a feasibility study of setting up of Post Bank of India.

Also there is a need for an in-depth assessment of the existing Postal banking system to identify problem areas and address them appropriately. The department has to think innovatively to make lending practices more inclusive and customer friendly. Procedural changes like simplifying loan application forms, exemption from stamp duty for small loans, flexible repayment facilities will make microfinance services more customer friendly. The rural customer needs to be made aware of the existing products and services. Villagers prefer going to the local money lender because he is easily approachable and is known to them. Post office personnel have to make all attempts to reach out to the customer instead of following the current practice of customers coming to them.

Here the task is to change the traditional mindset of the staff and Postal department as a whole. Although the structure needs to be decentralized to address field level issues yet strong accountability needs to be established, where ever required. Presently there is weak accountability, low motivation and resistance to change among staff members. Proper communication, orientation, handholding is essential before entrusting them with additional work. Capacity and skill building will help them accomplish their responsibilities with ease and precision. Technology is to be used prudently so as to lower the transaction costs in rural areas.

### **Conclusion**

It is clear that to enlarge the scope of microfinance the existing network needs to broaden. To do so, there is a need to utilize the existing wide network of post offices. Thus we can use the existing infrastructure and manpower for providing microfinance services to the poor without spending extra on infrastructure. To attain optimum economic efficiency we need to make sure that the available resources are utilized to the optimum instead of spending on new resources. The wide network of post offices in India is probably the largest in the world. But lately its significance has been diminishing with the advent of electronic media. Providing Microfinance services through Post Offices will be a win win situation for all stakeholders like lenders, facilitating organization, borrowers etc.

Policies would be made, schemes would be devised, laws would be enacted, however what we need to realize is that financial inclusion and overall development would be possible only if these schemes are implemented properly with benefits percolating to the poorest of the poor. In the last 60 years, the development planners have somehow not lived up to our expectations, with policies, products, vision documents etc. mostly being discussed and confined to the paper. The deciding factor of success of such programs ultimately is efficiency of government and transparency.

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