

Inclusive Growth and Microfinance

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Abstract—With the population being 1.37 billion, it is very imperative to inculcate the concept of inclusive growth via microfinance in India. Inclusive growth is going to be an important link between what the macro drivers of growth and micro drivers of growth come in and within that there is a topic which is talked about “Microfinance” becomes very important because finance plays a major part in almost anything that the world needs.

This research is based on secondary data collection.

This research focuses on studying the interrelationship between inclusive growth and microfinance. It also studies as to why microfinance is considered a “Compelling proposition” for inclusive growth in India. It also studies whether inclusive growth is about gender participation or not. This research further studies that big corporates, medical defies manufacturers etc. If they want to grow then they have to develop not just the top 300 million people (Middle class) but also have to focus on developing the sustainability of the other 800 million people who earn less than 45 or 50 rupees a day and that is where the development aspect is indecisive. For the size and scale of the country like India there is just no way, traditional methods can work for improving inclusive growth and that’s where the role of microfinance and how it gets channelized, administered into the very last mile and how it gets catalyzed and indulges with the other participants in real economy is critical. This research also focuses on the idea of patient capitalism. It also studies that it is extremely significant that there is a partnership of capital, innovation, social entrepreneurship for enabling inclusive growth.

1. “Introduction”

Most people believe its firms and institutions that drive growth but the real agent of growth in the world is individual. Inclusive growth is not unfortunately about the government which at best can play a facilitating role or the corporate sector which believes that they drive growth and we know, we all are beneficiaries of that, but very often they catalyze growth. Since finance has to play a very crucial role in almost everything, therefore the concept of microfinance establishing inclusive growth is very significant.

2. “Concept of Microfinance”

Microfinance is about allowing people to access quality financial services so that they can make choices that enable them to raise their income, to have access to products, goods, buy assets and also create some level of absorption against shock in the future. It is a medium to lift the people out of

poverty and its is not just about lending, or about the proverbial money lenders who lends money, its all about giving them services that are broken up into smaller pieces and can be accessed by them so that they can raise the levels of life and it is paramount that it is done as per the agenda of the people, rather than as per the agenda of the provider of services and definitely the poor and the privileged should be beneficiaries.

3. “What microfinance is not?”

A) It certainly is not charity.

While on one hand it certainly adds to the resources and capacity of individual but on the other hand it does require people, firms on the demand side to create opportunities which can harness this opportunity and make this commercially viable, so it clearly isn’t charity.

B) It’s not usury.

If you do need something to sustain itself it must be for itself but on the other side it is not meant to be predatory, the intent is not valuation, the intent is value creation. The intent is to give or create value. If everything is going to be based on the concept of creating valuation then you run a huge risk.

C) It’s not a new high capitalist opportunity.

There are 6 important ingredients to make an individual, one of them is integrity. You must be able to pay back for capital but you don’t have to make this one of the high return capitalist opportunity where you end up finding that you are highly levered, can’t sustain, or using territory practices to do things that end up destroying the very same thing that you are trying to create.

4. “Scope of microfinance towards inclusive growth”

Micro finance is all about empowering people, enabling success and enriching life.

It empowers the poor to address their own needs, on their own timetable, fosters sustainability and allows for scalability since the beneficiaries have a strong personal stake in it.

It provides an effective medium to channelize philanthropic close to the poorest of poor by helping them move up the

economic ladder, by increasing financial awareness dovetailed with skill building.

5. “It is all about patient capitalism”

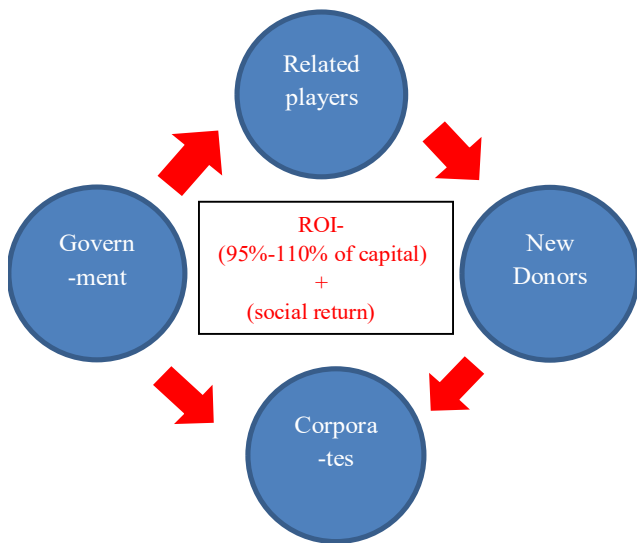
“People don’t want handouts. They want to make their own decisions, to solve their own problems”

-Jacqueline Novogratz

If we believe that we need to have sustainable growth then it is clearly very important to allow people to grow at their own terms. It’s very important that people are able to access and make choices, to take their own decisions and solve their own problems.

It’s not about a companies agenda, bank agenda or a financial institution leading to fulfill its targets, it’s about making sure that the recipient can receive it.

It’s very essential that the corporates, donors ,government players, all get together and understand that they have specific roles to play in every part and if each plays the part its best are doing them then the growth and success is in and have to continue, but then the return should be measurable and it is to be measured in terms of ROE/ROA that you make on an asset but certainly ensuring that the capital gets paid back 95% to 100% or 105% because sustainability is important but more important is the social value which you create.



6. “Gender participation in inclusive growth”

Inclusive growth is all about gender participation in the economy. With 500- 600 million women in the country, if we don’t involve this part of the economy then the economic growth clearly won’t be very productive and that’s where microfinance actually recognized the importance of women in sustaining and playing an important role that bridges economic growth and also recognizes the role of being a

mother, wife or looking after the home, it’s a very powerful element.

7. “Examples of micro finance leading to inclusive growth”



These are the examples of how finance draft inclusion with social organization to be able to increase skills and eventually to be able to increase subsidiaries or create institutions that will create some kind of labor demand. It is that labor demand which will take care of opportunities that the supply of labor that we have enough for end up satisfying. Emerging markets rarely have problems of unemployment, they have a problem of underemployment and India has a problem of disguised unemployment.

8. “Rational behavior of a Microfinancer”

- A)The micro financer should learn from what has happened in the world,that is learning from the crisis around him.
- B)He should see the challenges and make the opportunities out of them.
- C)Rather than skinning a cat, his main focus should be on the need to build a muscle.
- D)He should reassure and involve key people and win their loyalty and commitment.
- E)He should identify and nurture human capital.
- F)His main focus should be on cash flow, wiping out waste,doing ethical business.
- G)While ‘Quant’ makes sense, he should listen to his guts too.
- H) For him, risk management should be single, overarching goal.

9.) “Why is microfinance such a compelling proposition for inclusive growth in India?”

“Fortune lies at the base of the pyramid”
-C.K. Prahlad

Corporates focus at the base of the pyramid. Corporates have investors, shareholders, who wants returns, but if we have to look at what it takes to build a country ,we really have to worry at the base of the pyramid especially when we have the demographic of the population of the kind of a country like India and clearly there isn’t the excess of government funding’s, a lot of government programs, even failure of the

government and the national bank for reconstruction and development which started a self help group process in India years ago, took a leap but it did not work.

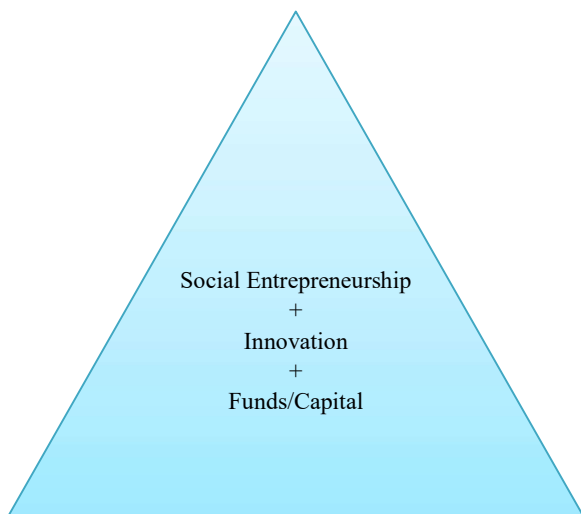
Money lenders ended up being more successful than what the government was trying to do, so the social mission of the government failed because the money lenders were just better, they were competent, faster, gave door-step services and that's where the "Grameen Model of joint liability group" gave in where the main focus was on individual and not on the group and that's where the role of social entrepreneur comes in.

There has been a lot of growth but not enough of microfinance. There has been a valuation of 2billion\$ of SKS finance and of course as soon as the ITO happened, everything else crumbled. But we have just about crashed the surface.

But, there are another 150 million people or household that could benefit from microfinance but much of what is happening in microfinance is lying in just about 4-5 states, which is just known to be better when it comes to handling payment of credit and there again when a few people incubate a business, the other forms just in to be able to sell a more to the existing flare, so while liquidity creates markets, excess liquidity creates bubbles. That's the classic case of what we are seeing now.

There's a need for far great participation, there's a need to broad-base this.

Inclusive growth is all about crossing sectors, crossing genders, crossing all levels of societies so that the entire labor force that exists can effectively be covered over period of time.



10. "Andhra Pradesh microfinance crisis 2010"

Microfinance institutions used unethical practices to recover the loans, which evidently lead to suicides by borrowers, allegation of multiple borrowing and charging high interest rates compelled the Andhra Pradesh government to

disseminate an ordinance in October ,2010 in order to save the borrowers.

In December, 2010 an ordinance was implemented as Andhra Pradesh Microfinance Institutions (Regulation of money lending act). By following the act operations, operations of MFI's just came to halt.

In 2009,growth of loan portfolio and clients were 95% and 57% respectively; it came down to mere 17% for both in the fiscal year 2010.Loan write offs also increased in 2010 to 3% from a mere 0.6% of the same period one year earlier(*MIX Microfinance World*, 2011).

As per the ordinance, MFI's were not allowed for collecting money door to door and were enjoined to collect money from the public places on monthly basis instead of weekly basis.

Analysis of *M-CRIL Microfinance Review(2011)* indicate that crisis left the MFI's in India to possess worst portfolio quality ratios in the World. Portfolio at risk (PAR30) sprang up from 0.65% (March end 2010) to 25.5% in 2011.

10.1 Consequences of the crisis

1. Microfinance companies like share Microfin, Asmitha Microfin, Spandana Sphooty Financial, Trident Microfin and Future Financial Services were left with negative net worth after the crisis in the microfinance sector(*Business Standard*, 13th September 2013).
2. As per standards, banks are not allowed to give fresh loans to companies that have negative net worth. As the banks stopped lending MF1,they were not able to disburse fresh loans to their clients.
3. Banks were also hit by crisis as 80% of loans MFI's borrowed were from them. Of the other 21000 crore, that bank has outstanding to MFI's, roughly a third was borrowed from private banks (*Financial express*, November, 2010).

Table 1: Loans disbursed and outstanding to MFI's under MFI-Bank Linkage programme (In Rs. crore)

Particulars	2008-09		2009-10		2010-11		2011-12	
	No. of MFI's	Amount	No. of MFI's	Amount	No. of MFI's	Amount	No. of MFI's	Amount
Loans disbursed by banks to MFI's	581 (12.2%)	3732.33 (89.4%)	779 (34%)	10728.5 (187.4%)	471 (-39.5%)	8448.96 (-21.3%)	465 (-1.3%)	5205.29 (-38.39%)
Loans outstanding against MFI's as on March 31	1915 (72.7%)	5009.09 (82.2%)	1659 (-13.4%)	13955.75 (178.6%)	2315 (39.5%)	13730.62 (-2.0%)	1960 (-15.3%)	11450.35 (-16.6%)
Fresh loan as a % of loan outstanding		74.5		76.9		61.5		45.5

Source: Status of Microfinance in India 2011-12 NABARD

As shown in table 1:

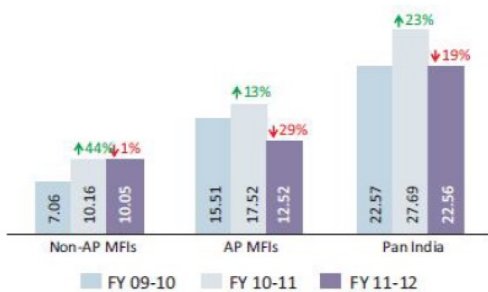
1. Fresh lending to MFI's by bank during the year 2011-12 declined by over 38% as compared to 2010-11.
2. Loans against MFI's has come down by almost 17% during the year 2011-12.



Figure 1: Gross Loan portfolio (Rs.bn)

As shown in figure 1,

Gross loan portfolio also shrunk by 14% in the financial year 2011-12 and reduced to Rs.172 billion (Microscope,2012)

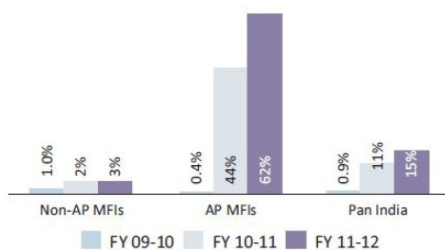


Source: The microscope, 2012

Figure 2: Client base (mn)

As shown in figure 2,

Client outreach has registered negative growth for the financial year 2011-12 in comparison with 2010-11.



Source: The Microscope,2012

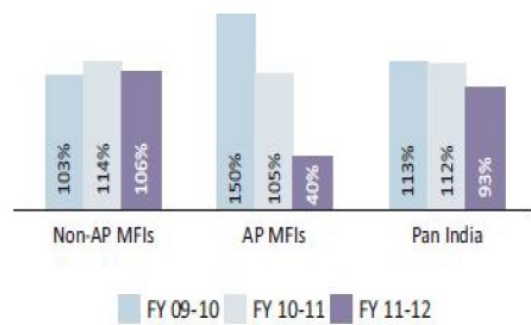
Figure 3: PAR 30(%)

Crisis have resulted in making borrowing expensive. Cost efficiency of MFI's in India deteriorated,as even for non AP-

MFI's cost per borrower has increased by 60% (M-CRIL, 2012).

As shown in the above figure

Crisis has severely affected a Portfolio at risk(PAR 30) i.e. unpaid principal balance of loans overdue by greater than 30 days, has worsened from 0.4% to 62% for AP MFI's.



Source: The microscope, 2012

Figure 4: OSS(%)

As shown in figure 4,

Because of the rising borrowing cost, and inability to raise funds for growth, financing expenses have increased and it is further straining the OSS.Operational Self Sufficiency (OSS),for AP MFI's fell drastically from 150% (FY 2009-10) to 40% (FY 2011-12).

11. "Conclusion"

All of us whichever sector we represent as individuals, we have a role to play, as companies we have a role to play, as government we have a role to play.

Government should only play a part where markets are not capable of playing on their own and very often government have an irresistible urge to jump in and run businesses which they never care to handle but then they have a social mission and again when we talk about a country like India which is very populous ,not enough on cash and commodity, we just have a large population and that's the strength we have to harness, soits extremely important that there is a partnership of capital ,innovation and social entrepreneurship.

The Andhra Pradesh government passed an ordinance, protectionism, is not just the name of the game, they have to find the ideas to facilitate it.

The idea is not to bureaucratize a process. On the other side, companies have to be more reasonable and understand that return has to be seen as a social value and has to be taken on a longer run and finally individuals, we can't forget that each of us are recipients of some game, each of us are recipients of somebody who included us in their growth, it's time we leave it behind as a legacy.

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