



Ray of hope: Sanghamitra's urban arm receives substantial funding from philanthropist Rohini Nilekani (centre)

Manna For The

The demand for small loans from the country's urban and rural poor is estimated at Rs 45,000 crore. Why then hasn't micro-financing taken off?

BY KUSHAN MITRA

YOU WOULDN'T HAVE HEARD of Rohini Nilekani, but now that you've read that name we can tell you your guess is spot on: She is indeed the wife of Infosys head honcho Nandan Nilekani. But, fear not, this isn't another story on corporate wives. Rather it's got plenty to do with a little-known outfit Ms Nilekani has funded, called Sanghamitra, which is a micro-financial institution that's targeted at the urban poor. If you're

still wondering what such an institution does, well it's actually pretty simple: It offers loans to the poor at decent rates. "Micro-finance in India was largely concentrated in the rural sector although the urban poor are in very great need of credit and have been accessing it anyway at rather exorbitant rates of interest. It seemed a great opportunity for me to do my bit for the idea of poverty alleviation in our cities and towns," explains Nilekani.

MICRO-FINANCE BY THE NUMBERS

Rs 45,000 crore

Estimated annual demand for micro-finance

Rs 1,022 crore

Disbursements through micro-finance in 2002-03

12 Million

Estimated number of households reached in FY 03

Rs 1,000

The average size of a micro-finance loan

24%

The average interest rate on a micro-loan

60 Days

The average duration of a micro-loan

3%

The average default rate

95%

The average on-time repayment of micro-loan

DEEPAK G. PAWAR

Masses

Sanghamitra, and the various other such institutions (focusing more on the rural poor) are loosely based on the model of Bangladesh's Grameen Bank, which provides small amounts of credit to rural women in that country. The bank operates through women's self-help groups and has gone on to become one of the largest banking institutions in that country, now even spawning a mobile telephone service (called Grameen Phone).

Clearly, in a country where poverty is widespread, micro-finance is an imperative. Official statistics peg the percentage of Below Poverty Line (BPL) people in India at around 26 per cent. What's more, the number of people living barely above the officially-determined BPL line, who do not have access to the formal banking sector, is estimated at a whopping 350-400 million. These people have no choice but to go to moneylenders and fly-by-night

operators, who quite literally charge an-arm-and-a leg for their loans, and this usually has a domino effect on what you pay at the end of the consumer cycle.

Regulatory Hassles

The demand for micro-finance in India is estimated at Rs 45,000 crore annually. However, actual disbursement via micro-finance last year was a paltry Rs 1,022 crore. If micro-financing hasn't quite taken off a large part of the blame lies with the regulatory framework. Take the case of BASIX India, one of India's pioneering micro-financial services institutions based in Hyderabad. Vijay Mahajan, an IIT-Delhi and IIM-Ahmedabad graduate and a banker by profession started this micro-financial services company in 1996. Recently, he struck a deal with ICICI Bank whereby the micro-financial portfolio of BASIX was securitised. But he has had to endure a very difficult journey, manoeuvring through a morass of laws of legal frameworks.

"The problem is not about these laws being deliberately there to prevent micro-financial institutions from operating, it is because nobody in the bureaucracy or at the political level has really ever considered this sector seriously," points out Mahajan. The other problem according to him is the highly conservative outlook of the Reserve Bank of India, which is why BASIX's major brand, Bharatiya Samruddhi Finance Ltd. (BSFL), is forced to run as a non-banking finance company (NBFC). Mahajan reckons India needs the equivalent of 20 Grameen Banks. That's because the Grameen Bank reaches three million households. In India there are some 60 million such households that could avail of micro-finance.

BSFL for its part hasn't let the regulatory hurdles curb its enthusiasm. Today it is present in 18 districts across the states of Andhra