Asian Culture and Societies

ESSEC
BUSINESS SCHOOL

Microfinance in India: A financial tool to address poverty?

Working Paper N°1

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Personal Notes

The following report is a first attempt to tackle the issue of microfinance in India. This working paper compiles a lot of information which are often taken as they are released on the websites I visited. All the sources are displayed at the end of the report in the “Bibliography” section. This paper aims to be completed to be a valuable research.

I have chosen to tackle the theme of microfinance in India as I personally got to know the Indian culture during my stay in Singapore. India is a vast and complex country; time, as well as real life experience and talks with Indian people, are required to understand all the specificities of the country. My curiosity of the Indian business practices combined with my interest in all the recent financial disruptive models and new technologies led me to deepen my knowledge of the microfinance industry in India.

Introduction

In the first section, definitions are given to clarify the key terms of the topic. In the following section, the broad microfinance ecosystem in India is described. These two parts compile the knowledge needed to understand the core challenges faced by microfinance stakeholders in India, which is the subject of the third section. The last section provides a cross analysis of all the information gathered so far and tends to sum up the strengths, weaknesses, opportunities and threats of microfinance in India. This summary gives a first answer to the question: *Is microfinance a suitable tool to boost financial inclusion and address poverty in India?*

Part I - Definitions

A. Microfinance

According to Investopedia, microfinance is a type of banking service that is provided to unemployed or low-income individuals, or groups who otherwise have no other access to financial services. Ultimately, the goal of microfinance is to give low-income people an opportunity to become self-sufficient by providing a way to save money, borrow money and get insurance. In other words, microfinance provides loans, savings, insurance and fund transfers to entrepreneurs, small businesses and individuals who lack access to traditional banking services.

Microfinancing provides options to customers with limited resources to promote participation in productive activities or to support a small business. While institution participating in the area of microfinance are most often associated with lending, some microfinance companies offer additional services, including bank accounts and insurance. Additionally, some institutions provide information in the areas of financial literacy, such as understanding interest rates and managing financial risks.

Microfinancing is not a new concept. Small microcredit operations have existed since the 18th century. The first occurrence of microlending was attributed to the Irish Loan Fund system, introduced by Jonathan Swift, which sought to improve conditions for impoverished Irish citizens.

Like conventional banking operations, microfinance lenders must charge interest on loans, and they institute specific repayment plans with payments due at regular intervals. Not all applicants qualify, depending on the amount of default risk the institution attributes to potential borrowers and the terms of the loans for which the borrowers are applying.

Although microfinance has strong advocate, the microfinance industry’s practices have raised concerns. While these interest rates are generally lower than those offered by normal banks, some opponents of this concept raise concern that microfinance operations are making profits off of the poor. Not all funds provided through microfinancing are used for productive activities; some may be used for covering needs, such as food and shelter.

The majority of microfinancing operations occur in developing nations, such as Uganda, Indonesia, Serbia and Honduras. Even though the borrowers often qualify as very poor, repayment rates are often seen to be higher than the average repayment rate on more conventional forms of financing. For example, the microfinancing institution Opportunity International reported repayment rates of approximately 98.9% in 2016.

The International Finance Corporation (IFC), part of the larger World Bank Group, estimates that more than 130 million people have directly benefited from microfinance-related operations as of 2014. However, it is only available to approximately 20% of the 3 billion people who qualify as part of the world's poor.

In addition to providing microfinancing options, the IFC has assisted developing nations in the creation or improvement of credit reporting bureaus in 30 nations. It has also advocated for the addition of relevant laws governing financial activities in 33 countries.

Origin and establishment

The pioneer of modern microfinance is often credited to Dr. Mohammad Yunus, who experimented with making small loans, which he funded himself, to women in Bangladesh making bamboo furniture who had previously relied on usurious loans to purchase raw materials. He discovered these very tiny loans, which traditional banks did not want to make due to the perceived risks and costs, could make a disproportionate difference to a poor person and given the chance they would pay them back creating a viable business model. He would go on to found Grameen Bank in 1983 and win the Nobel Peace Prize in 2006.

Muhammad Yunus was born on 28 June, 1940 in the village of Bathua, in Hathazari, Chittagong, the business centre of what was then Eastern Bengal. He was the third of 14 children, of whom five died in infancy. His father was a successful goldsmith who always encouraged his sons to seek higher education. But his biggest influence was his mother, Sufia Khatun, who always helped any poor person or relative who knocked on their door. This inspired him to commit himself to eradication of poverty. His early childhood years were spent in the village. In 1947, his family moved to the city of Chittagong, where his father had the jewelry business.

In 1974, Professor Muhammad Yunus, a Bangladeshi economist from Chittagong University, led his students on a field trip to a poor village. They interviewed a woman who made bamboo stools, and learnt that she had to borrow the equivalent of 15p to buy raw bamboo for each stool made. After repaying the middleman, sometimes at rates as high as 10% a week, she was left with a penny profit margin. Had she been able to borrow at more advantageous rates, she would have been able to amass an economic cushion and raise herself above subsistence level.

Realizing that there must be something terribly wrong with the economics he was teaching, Yunus took matters into his own hands, and from his own pocket lent the equivalent of ? 17 to 42 basket-weavers. He found that it was possible with this tiny amount not only to help them survive, but also to create the spark of personal initiative and enterprise necessary to pull themselves out of poverty.

Against the advice of banks and government, Yunus carried on giving out ‘micro-loans’, and in 1983 formed the Grameen Bank, meaning ‘village bank’ founded on principles of trust and solidarity. In Bangladesh by 2015, Grameen has 2,568 branches, with 21,751 staff serving 8.81 million borrowers in 81,392 villages. On any working day Grameen collects an average of $1.5 million in weekly installments. Of the borrowers, 97% are women and over 97% of the loans are paid back, a recovery rate higher than any other banking system. Grameen methods are applied in projects in 58 countries, including the US, Canada, France, The Netherlands and Norway.

Vision

Muhammad Yunus's vision is the total eradication of poverty from the world. 'Grameen', he claims, 'is a message of hope, a programme for putting homelessness and destitution in a museum so that one day our children will visit it and ask how we could have allowed such a terrible thing to go on for so long'.

This work is a fundamental rethink on the economic relationship between the rich and the poor, their rights and their obligations. The World Bank recently acknowledged that “this business approach to the alleviation of poverty has allowed millions of individuals to work their way out of poverty with dignity”.

Credit is the last hope left to those faced with absolute poverty. That is why Muhammad Yunus believes that the right to credit should be recognized as a fundamental human right. It is this struggle and the unique and extraordinary methods he invented to combat human despair that Muhammad Yunus recounts here with humility and conviction. It is also the view of a man familiar with both Eastern and Western cultures on the failures and potential for good of industrial countries. It is an appeal for action: we must concentrate on promoting the will to survive and the courage to build in the first and most essential element of the economic cycle Man.

Professor Yunus has long been promoting the creation of Grameen social businesses, which he believes will address the problems still left unsolved in the world and not addressed within the present capitalist system. In simple terms, a Grameen social business a non-loss, non-dividend company dedicated entirely to achieve a social goal. In social business, the investor gets his/her investment money back over time, but never receives dividend beyond that amount. The Grameen Bank is a prime example of social business, with poor people being its shareholders! The ultimate goal of the Yunus Centre is to create poverty museums, after bringing an end to poverty in each area --- in villages, cities, counties, provinces, and countries. The Centre strives to engage individuals and organizations in creating, promoting, and maintaining social business by spreading the concept through workshops, internships, projects etc.

Microcredit

Also known as “Microlending” or “Microloan”, a “Microcredit is an extremely small loan given to impoverished people to help them become self employed.

Labels to various types of microcredit are needed to clarify which microcredit we are talking about. This is very important for arriving at clear conclusions, formulating right policies, designing appropriate institutions and methodologies. Instead of just saying “microcredit” we should specify which category of microcredit.

Mohammad Yunus’s classification of microcredit

A) Traditional informal microcredit (such as, moneylender’s credit, pawn shops, loans from friends and relatives, consumer credit in informal market, etc.)

B) Microcredit based on traditional informal groups (such as, tontin, su su, ROSCA, etc.)

C)Activity-based microcredit through conventional or specialised banks (such as, agricultural credit, livestock credit, fisheries credit, handloom credit, etc.)

D) Rural credit through specialised banks.

E) Cooperative microcredit (cooperative credit, credit union, savings and loan associations, savings banks, etc.)

F) Consumer microcredit.

G) Bank-NGO partnership based microcredit.

H) Grameen type microcredit or Grameen credit.

I) Other types of NGO microcredit.

J) Other types of non-NGO non-collateralized microcredit.

General features of Grameencredit

a) It promotes credit as a human right.

b) Its mission is to help the poor families to help themselves to overcome poverty. It is targeted to the poor, particularly poor women.

c) Most distinctive feature of Grameencredit is that it is not based on any collateral, or legally enforceable contracts. It is based on “trust”, not on legal procedures and system.

d) It is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.

e) It was initiated as a challenge to the conventional banking which rejected the poor by classifying them to be “not creditworthy”. As a result it rejected the basic methodology of the conventional banking and created its own methodology.

f) It provides service at the door-step of the poor based on the principle that the people should not go to the bank, bank should go to the people.

g) In order to obtain loans a borrower must join a group of borrowers.

h) Loans can be received in a continuous sequence. New loan becomes available to a borrower if her previous loan is repaid.

i) All loans are to be paid back in instalments (weekly, or bi-weekly).

j) Simultaneously more than one loan can be received by a borrower.

k) It comes with both obligatory and voluntary savings programmes for the borrowers.

l) Generally these loans are given through non-profit organizations or through institutions owned primarily by the borrowers. If it is done through for-profit institutions not owned by the borrowers, efforts are made to keep the interest rate at a level which is close to a level commensurate with sustainability of the programme rather than bringing attractive return for the investors. Grameencredit’s thumb-rule is to keep the interest rate as close to the market rate, prevailing in the commercial banking sector, as possible, without sacrificing sustain-ability. In fixing the interest rate market interest rate is taken as the reference rate, rather than the moneylenders’ rate. Reaching the poor is its non-negotiable mission. Reaching sustainability is a directional goal. It must reach sustainability as soon as possible, so that it can expand its outreach without fund constraints.

m) Grameencredit gives high priority on building social capital. It is promoted through formation of groups and centres, developing leadership quality through annual election of group and centre leaders, electing board members when the institution is owned by the borrowers. To develop a social agenda owned by the borrowers, something similar to the “sixteen decisions”, it undertakes a process of intensive discussion among the borrowers, and encourage them to take these decisions seriously and implement them. It gives special emphasis on the formation of human capital and concern for protecting environment. It monitors children's education, provides scholarships and student loans for higher education. For formation of human capital it makes efforts to bring technology, like mobile phones, solar power, and promote mechanical power to replace manual power.

Grameencredit is based on the premise that the poor have skills which remain unutilised or under-utilised. It is definitely not the lack of skills which make poor people poor. Grameen believes that the poverty is not created by the poor, it is created by the institutions and policies which surround them. In order to eliminate poverty all we need to do is to make appropriate changes in the institutions and policies, and/or create new ones. Grameen believes that charity is not an answer to poverty. It only helps poverty to continue. It creates dependency and takes away individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty.

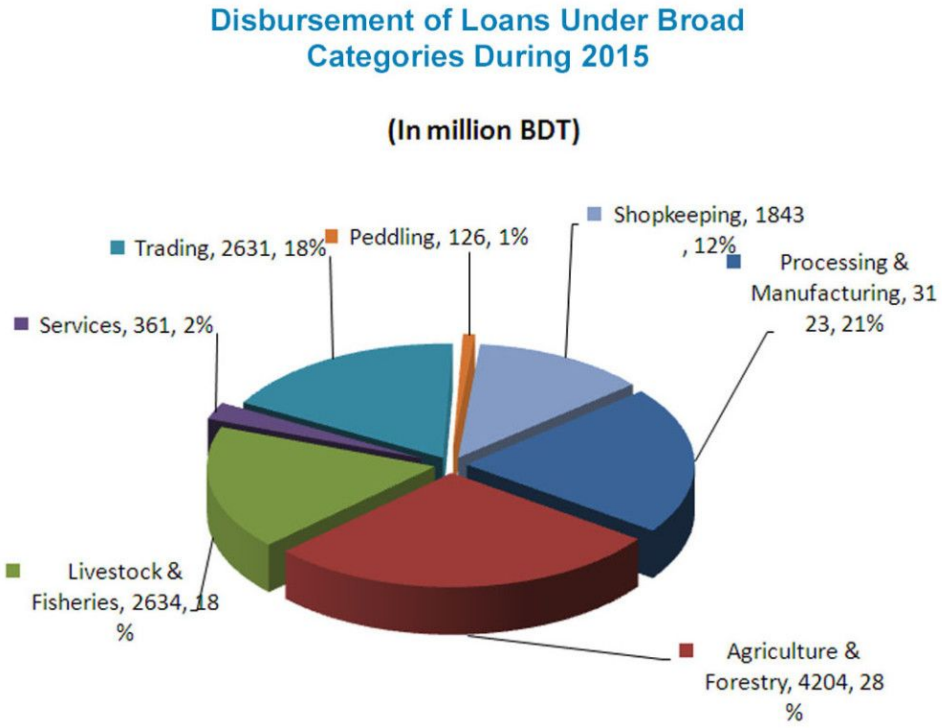
Grameen brought credit to the poor, women, the illiterate, the people who pleaded that they did not know how to invest money and earn an income. Grameen created a methodology and an institution around the financial needs of the poor, and created access to credit on reasonable term enabling the poor to build on their existing skill to earn a better income in each cycle of loans.

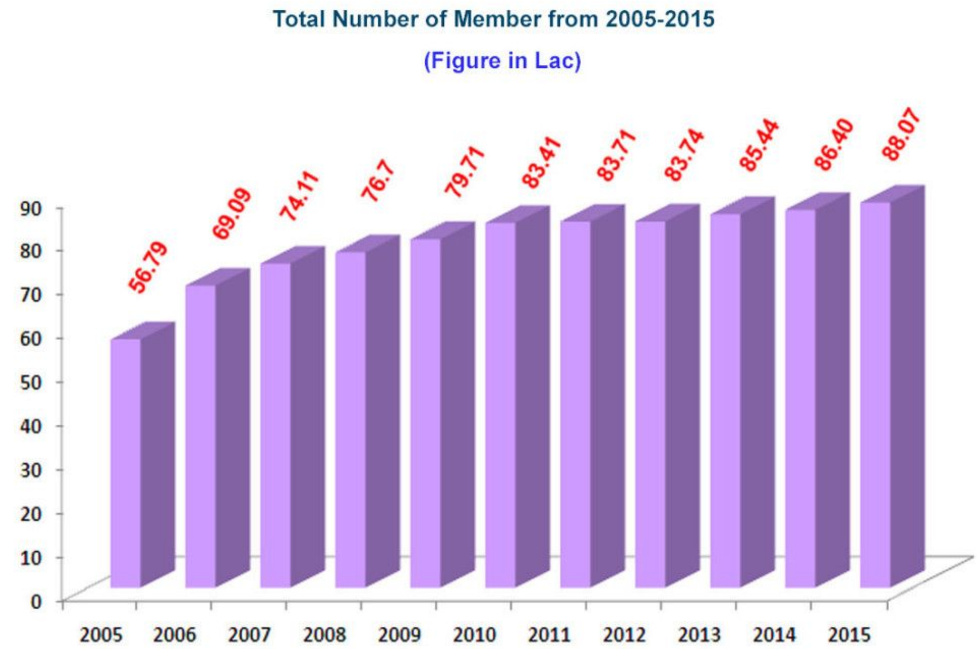
If donors can frame category wise micro credit policies they may overcome some of their discomforts. General policy for microcredit in its wider sense, is bound to be devoid of focus and sharpness.

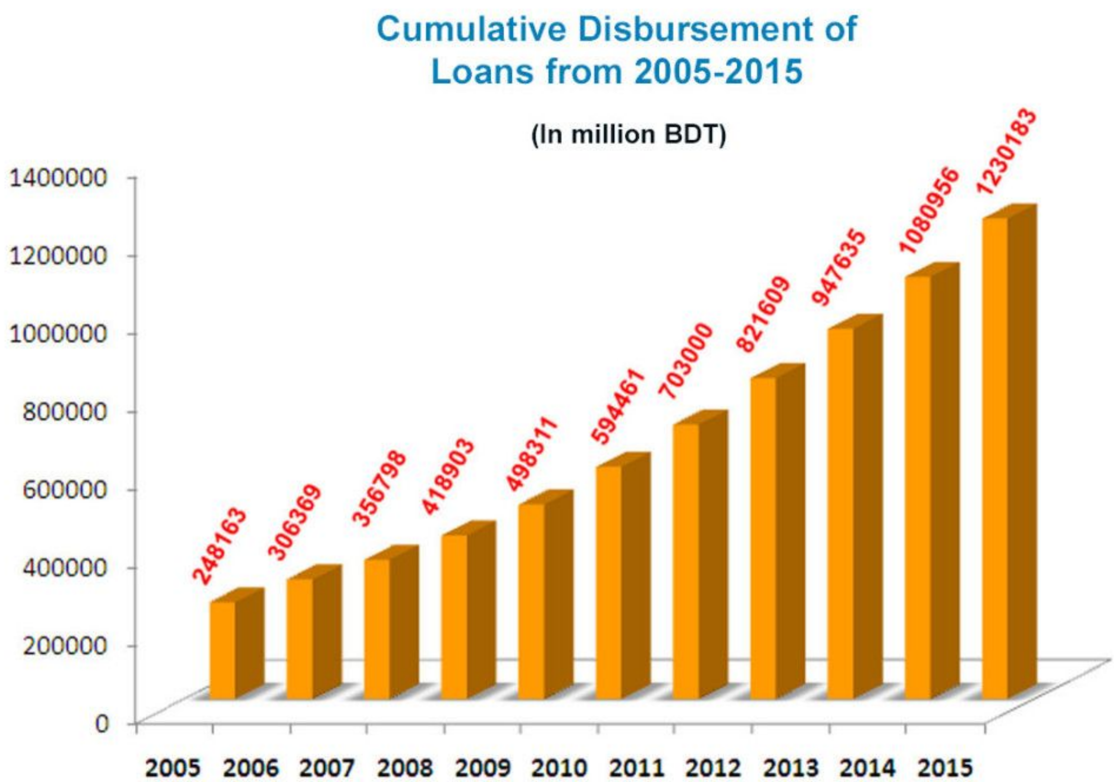
Grameen Bank (GB) has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. GB provides credit to the poorest of the poor in rural Bangladesh, without any collateral. At GB, credit is a cost effective weapon to fight poverty and it serves as a catalyst in the over all development of socio-economic conditions of the poor who have been kept outside the banking orbit on the ground that they are poor and hence not bankable. Professor Muhammad Yunus, the founder of "Grameen Bank" reasoned that if financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder."

As of December, 2015, it has 8.81 million borrowers, 97 percent of whom are women. With 2,568 branches, GB provides services in 81,392 villages, covering more than 97 percent of the total villages in Bangladesh. Grameen Bank's positive impact on its poor and formerly poor borrowers has been documented in many independent studies carried out by external agencies including the World Bank, the International Food Research Policy Institute (IFPRI) and the Bangladesh Institute of Development Studies (BIDS).

Development and expansion




Total Number of Member from 2005-2015
(Figure in Lac)
56.79
69.09
74.11
76.7
79.71
83.41
83.71
83.74
85.44
86.40
88.07
90
80
70
60
50
40
30
20
10
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015


Cumulative Disbursement of Loans from 2005-2015
(In million BDT)
248163
306369
356798
418903
498311
594461
703000
821609
947635
1080956
1230183
1400000
1200000
1000000
800000
600000
400000
200000
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015

B. India, a vast, diverse and complex country

India, officially the Republic of India, is a country in South Asia. It is the seventh-largest country by area, the second-most populous country (with over 1.2 billion people), and the most populous democracy in the world.

According 2017 OECD Economic Surveys, India is the fastest-growing G20 economy, thanks to ambitious structural reforms and low commodity prices. Deregulation and improvement in the ease of doing business have boosted foreign investment. However, investment is still held back by the relatively high corporate income tax rates, slow land acquisition processes, stringent regulations, weak corporate balance sheets, high non-performing loans and infrastructure bottlenecks.

The key points to have in mind are the following:

- Growth has been strong
- Tax reform could make growth more inclusive
- Policy reforms at the state and municipal levels could boost productivity and reduce spatial disparities

Summary statistics			
Region	2015	Southern Asia	
Surface area (sq km)	2014	3287263	
Population (proj., 000)	2016	1326802	
Pop. density (per sq km)	2016	446.3	
Capital city	2015	New Delhi	
Capital city pop. (000)	2015	250	2011.
Currency	2015	Indian Rupee (INR)	
UN membership date	2013	30 October 1945	

Source: United Nations

The 2017 OECD forecast states that economic growth is projected to remain strong and India will remain the fastest growing G20 economy. The increase in public wages and pensions will support consumption. Private investment will recover gradually as excess capacity diminishes, and the landmark Goods and Services Tax and other measures to improve the ease of doing business are being implemented. However, large non-performing loans and high leverage of some companies are holding back investment.

Monetary policy is projected to remain tight as inflation expectations have still not fully adjusted down. The need to reduce the relatively high public-debt-to-GDP ratio leaves little room for fiscal stimulus. However, investing more in physical and social infrastructure is critical to raising living standards for all. This should be financed by a comprehensive reform of income and property taxes. Restoring credit discipline and cleaning up banks' balance sheets will be instrumental to support the credit growth needed to finance more business investment.

Trade openness has increased, partly driven by a competitive service sector. Manufacturing has lagged behind, with limited contribution to exports and job creation, leaving many workers in low-paid jobs. Promoting quality job creation in manufacturing would require reducing further restrictions on FDI and trade, modernising labour regulations and providing better education and skills. Better infrastructure, transport and logistic services would facilitate manufacturing firms' access to global markets, particularly from remote and poorer regions.

PESTEL Analysis

(i) Politics

India is the world's most populous democracy. A parliamentary republic with a multi-party system, it has seven recognised national parties, including the Indian National Congress (INC) and the Bharatiya Janata Party (BJP), and more than 40 regional parties. The actual President, M. Pranab Mukherjee (INC), came to power in July 2012; whereas the actual Prime Minister, Narendra Damodardas Modi (BJP), is the head of government since May 2014. The next elections are coming soon: next July 2017, the President will be elected and in May 2019 will take place the legislature of India.

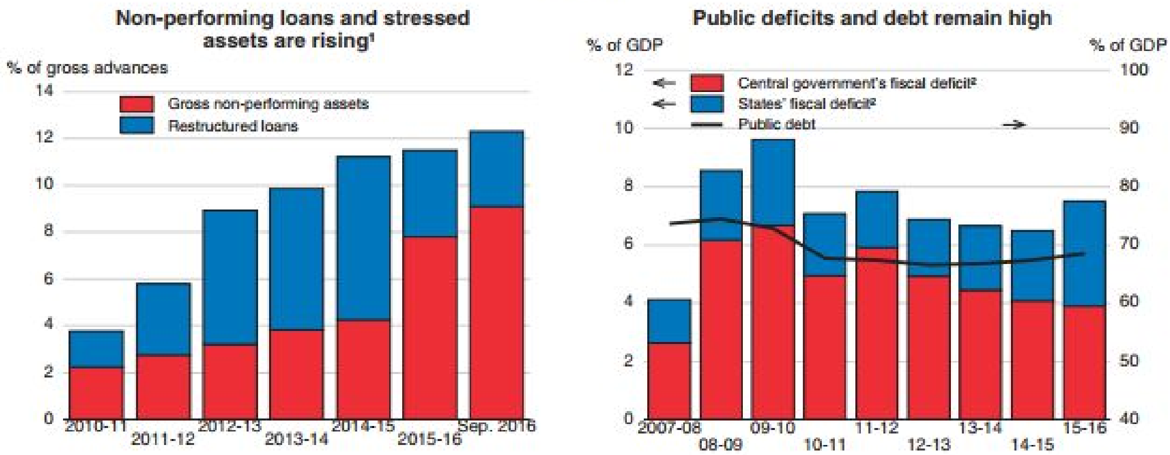
India has the most ambitious project, composed of a digital national identity card for every citizen based on biometrics and a low-cost bank account for everyone, facilitated by a national payments infrastructure with access to mobile. Together these elements enable the government to deliver social transfer payments at lower cost and without the leakage from corruption, saving significant amounts of taxpayer money. They also create the backbone on which the private sector can innovate, which in turn accelerates change.

(ii) Economics

ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	7 454		Primary sector (2014)	17,6	(2,5)
In current prices (billion INR)	132 549		Industry including construction (2014)	29,7	(26,4)
Latest 5-year average real growth (%)	6,8	(1,7)	Services (2014)	51,6	(71,1)
Per capita (000 USD PPP)	5,9	(39,2)			

Source: OECD

India



1. A restructured asset is an asset whose terms have been modified, including alteration of the repayment period, repayable amount, instalments and rate of interest.
2. Data for the fiscal year 2015-16 are provisional.

Source: Reserve Bank of India; and Controller General of Accounts.

StatLink http://dx.doi.org/10.1787/888933503225

(iii) Society

SOCIETY					
Absolute poverty rate (2011, %)	21,9		Public and private spending (% of GDP)		
Ratio of incomes of the top 10% vs. bottom 10% (2011)[2]	8,4	(11,2)	Health care, current expenditure, 2014	4,7	(9,2)
Ratio of incomes of the top 10% vs. bottom 10% (2011)[2]	8,4	(9,6)	Pensions	0,7	(8,7)
Share of women in parliament (%)	12,0	(28,6)	Total government spending in education, 2014	3,8	(5,2)

Better life index: www.oecdbetterlifeindex.org

Source: OECD

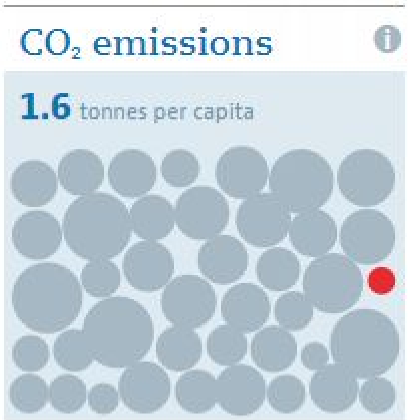
(iv) Technology

India faces the rise of digital startups. These companies that bring services to consumers via e-commerce platforms are embedding financial services into their offerings. The Mobile Network Operators (MNOs) are also driving deep change in the financial marketplace. By 2020 mobile phone penetration is expected to reach 63 percent globally.

(v) Environment

ENVIRONMENT					
Total primary energy supply per capita (toe)	0,6	(4,2)	CO_2 emissions from fuel combustion per capita (tonnes)	1,5	(9,5)
Renewables (%)	25,3	(9,4)	Water abstractions per capita (2014, m^3)	761	(819)
Fine particulate matter concentration ($PM_{2.5}$, $\mu g/m^3$)	46,7	(14,0)			

Source: OECD



Source: OECD

(vi) Legal

A recent and broad topic in India is “demonetisation”. Narendra Modi government announced last December 2016 that they will make cashless salary mandatory and amend 80-year-old law. In a further push to cashless economy, the Central cabinet has approved the ordinance for paying wages via electronic means. Accordingly, the government approved to amend Section 6 of the Payment Of Wages Act, 1936. The new ordinance will be applicable to public sector, with the private sector coming under the purview of the new move later.

Part II - Microfinance Stakeholders in India

A. Microfinance Institution (MFI)

- Bharat Financial Inclusion Limited

BFIL (formerly known as SKS Microfinance Limited) is a non-banking finance company (NBFC), licensed by the Reserve Bank of India, founded in 1997 by Vikram Akula. BFIL is the India's biggest microfinance company with a $1.2 billion loan book, a third of it in the southern state of Andhra Pradesh. The company went public in July 2010. The $350m offering was more than 13 times oversubscribed.

- Grameen Koota Financial Services Pvt. Ltd

The company is a Karnataka-based micro lender. Udaya Kumar, is the managing director and chief executive. Grameen Koota Financial Services Pvt. Ltd. (Grameen Koota) was born out of the need for timely and affordable credit to India's poor and low-income households. Grameen Koota was visualized by Mrs. Vinatha M. Reddy in December 1996, inspired by the book 'Give Us Credit' by Alex Counts, President and CEO, Grameen Foundation USA. The book detailed remarkable stories of Bangladesh's poor who raised themselves out of poverty through the use of micro-credit during the microfinance movement, spearheaded by Nobel Laureate Professor Muhammad Yunus. Founded in May 1999 with the name Grameen Koota, as a project under the T. Muniswamappa Trust (TMT), an NGO in South Bangalore. Grameen Trust, Bangladesh provided seed capital funding to replicate Grameen Bank Bangladesh microfinance model to TMT.

- Positive Planet

Positive Planet's mission is to help men and women across the world create the conditions for a better life for future generations. Positive Planet was created out of the evolution of PlaNet Finance, whose initial mandate since 1998, was to fight poverty through the development of microfinance. Over the last 20 years, financial inclusion has evolved considerably. From a series of small initiatives, it has become a large-scale movement offering both financial and non-financial services, improving the lives of hundreds of millions of people. Today, the challenge facing us is not so much in pursuing development for the sake of development, but to ensure its quality and long-term orientation. It must be fair, promote a healthy environment, make water and abundant sustainable energy readily available, ensure access to education and health for everyone, and procure housing for all. When development achieves these objectives, it allows everyone, and particularly the poorest, to fulfil their potential for the benefit of future generations, which is the very definition of the positive economy.

- Kiva

Kiva is an international nonprofit, inspired by the work of Dr. Yunus, founded in 2005 and based in San Francisco, with a mission to connect people through lending to alleviate poverty, by leveraging the internet and crowdfunding. We celebrate and support people looking to create a better future for themselves, their families and their communities. By lending as little as $25 on Kiva, anyone can help a borrower start or grow a business, go to school, access clean energy or realize their potential. For some, it's a matter of survival, for others it's the fuel for a life-long ambition. 100% of every dollar you lend on Kiva goes to funding loans. Kiva covers costs primarily through optional donations, as well as through support from grants and sponsors. Over the past ten years Kiva has enabled more than 1.5 million people to fund over 2 million borrowers in over 80 countries. The result has been nearly $1 billion dollars lent to borrowers and repaid at a rate greater than 97%.

B. Policy Makers and Monetary Regulators

- Central Bank of India
- Reserve Bank of India (RBI)
- Sa-Dhan, a self-regulatory organization for the microfinance industry

C. Non-Governmental Organizations

- Consultative Group to Assist the Poor

CGAP, housed at the World Bank, organizes its work around a five-year strategy that is designed to help build financial systems that work for the poor. CGAP identifies emerging challenges and opportunities, builds the evidence base for potential solutions through research and demonstration projects, and shares lessons learned with financial service providers, mobile network operators, policy makers, regulators, and funders.

- United Nations

The United Nations gathered governments, businesses and civil society together to start to mobilize efforts to achieve set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. In 2015, countries adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals. Each goal has specific targets to be achieved over the next 15 years. Universal, inclusive and indivisible, the Agenda calls for action by all countries to improve the lives of people everywhere. The first goal is entitled “End poverty in all its forms everywhere”.

D. Media and Research Institutes

- Microfinance India

This national platform strengthens the microfinance sector through high quality research, intellectual debate and knowledge dissemination. Microfinance India is a national level advocacy platform, initiated by ACCESS Development Services, spurned off to ACCESS-ASSIST, to engage various stakeholders and develop a comprehensive vision for the entire sector. Indian microfinance remains a diverse and complex arena with its array of products and methodologies. Microfinance India seeks to promote the distinct voices of those associated with the field – regulators, policy makers, government, banks, insurance companies, MFIs, donors, academicians, SHPIs etc. The sector has matured and expanded its ambit of stakeholders - attracting new entrants such as rating agencies and social equity investors. Cumulatively, these new players, their financial instruments, delivery models, and technology platforms - emphasize the need for an expanded understanding of the arena and all its associated contributors. Microfinance India Summit, starting under the aegis of CARE, ACCESS and now ACCESS – ASSIST has become the most significant platform for the future visioning of India's microfinance sector.

- ACCESS - ASSIST

A public charitable trust whose overall mandate is to work at all levels of the financial value chain, on one hand to organize the demand on the ground and on the other hand to engage with supply side actors and catalyze greater flow of funds to the poor. The three tier strategy of ASSIST has allowed focusing on micro and macro issues, gaps and needs of the Indian Microfinance sector, with. The aim is to incubate new institutions to enable their self-sufficiency and self-sustainability under specialized technical assistance. . to cater to varied demands of the growing microfinance sector through streamlined and structured services to emerging MFIs and supporting the enabling environment through the Microfinance India platform.. To optimize its resources and maximize the results of its interventions, ACCESS – ASSIST believes in partnering with key stakeholders in the sector in order to develop mutually reinforcing strategies, bring convergence of competencies and build consensus on key issues.

E. Mobile Network Operators

In India, mobile network operators (MNOs) offering prepaid and postpaid services are driving deep change in the financial marketplace. By 2020 mobile phone penetration is expected to reach 63 percent globally, and even higher in parts of Sub-Saharan Africa, where registered mobile accounts reached 222.8 million in 2015, double the number of the next largest region, South Asia. Use is also growing steadily and has reached 38 percent today in Africa, up from 10 percent in 2011. By delivering payment, credit, and other financial services over mobile phones, MNOs are reaching remote rural areas where 40 percent of the world's poorest people live, and they are freeing finance from the confines of bricks-and-mortar banks. Not surprisingly, traditional banks and microfinance institutions are following their lead, increasingly embracing technology, branchless banking, and agent-based solutions to help them cost-effectively reach beyond urban centers and scale up their services for a far larger group of clients.

Top 9 best mobile SIM networks in India		
Airtel	Vodafone	Aircel
BSNL	Reliance Jio	MTS India
Idea	Tata DoCoMo	MTNL

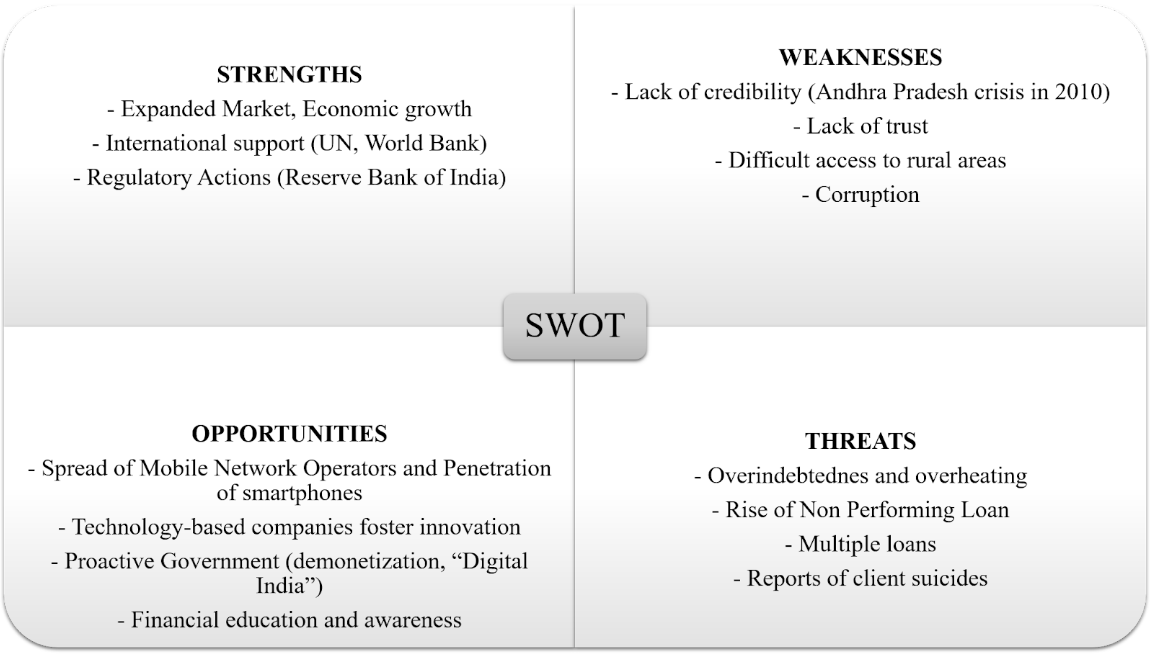
Part III - Stakes and Challenges

The core challenge of microfinance is to give access to financial services to the 2.5 billion individuals and about 200 million businesses around the world who lack access to financial services even in the XXIst century. Financial inclusion is become a means to address poverty. There is no doubt that appropriate financial access helps households and spurs economic activity. At the macroeconomic level, studies show that financial intermediation fosters growth and reduces inequalities. This is why global bodies such as the G20 and a large number of national governments have made financial inclusion a development priority.

In 2017, in India, there is much talk about the growth of microfinance possibly causing a repeat of the 2010 crisis, when the sector grew fast and there were allegations that multiple lending led to the overleveraging of clients. Having largely recovered from the 2010 crisis, the growth of microfinance today creates a new set of challenges.

Part IV - SWOT Analysis

This section aims to sum up all the previous data to assess the power and future impact of microfinance as a tool to support the spread of financial inclusion in India and address poverty.



Conclusion

Microfinance is a powerful tool to boost financial inclusion in India and need to be part of a global strategy which requires regulatory oversight and support from the government.

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