

Microfinance attracts renewed interest

Within months of the RBI lifting the interest rate cap on such loans, the industry is seeing a steady rise in borrowing, especially by women in some of India's poorest districts

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Mamta Devi, a resident of Ranti village in Bihar's Madhubani, makes a living selling her paintings of the famous art synonymous with the district's name. This morning she is sitting in a group of 10 women taking out a microfinance loan of ₹25,000 to finance her work.

This is her second loan from the company, having paid off her first one. Mamta Devi, like the hundreds of thousands of women in north Bihar who take these loans, does not understand how interest rates work but knows that, somehow, it matters for the payout. "The first question they ask the *grahak mitras* (village-level outreach agents) is how much they will have to pay back each month," says Sameer Kundu, area manager of Adi Chitragupta Finance Limited (ACFL), the only microfinance company headquartered in the state, speaking to this writer at his office in Madhubani town.

And there are plenty of competitors, adds Shubham Vineet, senior vice-president of ACFL. "Post-Covid, the number of institutions offering small loans in villages and small towns of Bihar has doubled," he says. From around 25 in 2019, there are now 55 according to the data of Microfinance Institutions Network (MFIN), the pan-Indian group representing these companies.

Discussions on interest rates have become even more intense after the Reserve Bank of India (RBI) removed the cap on the rates the lenders can charge in its master circular of July 2022. Typical microfinance borrowers are families with monthly income of ₹25,000 or less. Within days of the RBI announcing any change in the rules for retail loans, enquiries began to pour in.

Whether it is large non-banking financial companies (NBFCs) such as L&T Financial Services or a private bank such as Axis Bank with a slew of regional microfinance institution (MFI) partners or NBFC-MFIs such as



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ACFL — there are 112 of the latter, according to RBI data of December 2022 — even in Araria, which figures in the NITI Aayog list of India's most backward districts, their signboards are all over the place.

"The expectation implicit in the removal of interest rate ceilings and prescriptions is that enhanced competition among all microfinance lenders — now that the playing field has been levelled — would bring down the interest rate," noted V Anantha Nageswaran, chief economic advisor, in a "white paper" he wrote with economists Laveesh Bhandari and Sumita Kale for Indicus Foundation.

Before the RBI waiver, the all-inclusive cap on rates of interest was about 26 per cent per year. In the period between July and December 2022, the rates have been flat — despite the steady increase in the repo rate over the year. Instead, the industry's loan portfolio has risen 23.5 per cent year-on-year to ₹3 trillion. Banks are the largest lenders in this universe with a market share of 37.7 per cent, NBFC-MFIs are next with 36.7 per cent, while small finance banks, stand-alone NBFCs and stand-alone

MFIs account for the remaining 25.6.

Events on the ground bear out the Indicus paper's hypothesis. The companies now compete by offering longer tenures for the same loan or cut the monthly instalments to suit the income cycle of the borrowers such as Mamta Devi.

The beneficiaries of these companies are almost always women's collectives of eight to 10. While each member takes out a loan and commits to repay from her family income, the presence of other members acts like a credit check on her. Deep inside Araria is Kursakanta village, a few kilometres from Nepal, Neelam Devi, who runs a cloth shop in the local market, is the leader of one such group. She is encouraging her members at a meeting with ACFL *grahak mitras* to prepay loans and take out a fresh one. There is a catch: Prepayments have to be agreed to by all the members, which means a thorough discussion about the benefits about the future monthly instalments.

The one word that has caught on among these women is OD, or overdue loans. "OD is a dreaded word around here. So even if one member

defaults, the others scramble to get the dues paid on time," says Bhaskar Pramanik, ACFL area manager, in charge of several branches like the one in Bhawanipur in Purnia district.

In a landmark development, all borrowers have their names uploaded on the database of TransUnion CIBIL, India's leading credit information company. That data is liberally shared by MFIN among its members. Nageswaran, in his paper, has suggested moving to a daily updating of credit status from the current monthly routine, arguing this will cut rates for the borrowers because of greater transparency.

Group leaders like Sushila Hembram, an Adivasi, agree with Pramanik. She has come to the Bhawanipur office to pay the insurance cover for the loans the members have taken out. Her eldest daughter is studying in Banaras Hindu University, Varanasi, and Sushila Hembram is debating if she will take out an education loan for her second daughter, who will go to college this year.

That knowledge has helped. Compared to years ago, these women are able to keep the money for which they took the loan — such as setting up a shop and buying a hand cart or a milch cow. In every village this writer visited, pesky husbands and demanding children have had to retreat.

This has helped in keeping the OD menace out of the picture. A CRISIL report on the sector notes that "the newly originated book (loans disbursed after July 2021) of NBFC-MFIs has demonstrated a steady performance...Overall monthly collection efficiency was healthy at an average 97-100 per cent in the fourth quarter of last financial year" (FY22) compared with about 70 per cent in the first quarter of the same year. Alok Misra, CEO and director, MFIN, makes the same point. "Portfolios created after Covid are performing much better and enthuse confidence."

Today, disbursement of loans is almost exclusively online for all companies. Customers like Mamta Devi can also make payments online via a customised QR code printed in their customer book.

Government intervention for development in these parts of north Bihar is hard to spot. But those at the bottom of the pyramid like Mamta Devi and Sushila Hembram have begun to use an astute combination of market-led moves to progress. If Budget FY24 keeps the fiscal deficit steady, it will offer the RBI space to keep interest rates from rising further and help these women even more.

The field trip by the author was self-financed