Microfinance Development Strategy for India

ANIL K KHANDELWAL

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Due to the nature of the expansion of banking services in the country and constraints on banking entities, microfinance and microfinancing institutions have gained immense relevance today. The microfinance activities of banks have grown to new heights.

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It would be nice if the poor were to get even half of the money that is spent in studying them.

– Bill Vaughn

I
Microfinance: A Concept

Microfinance today has become one of the most debated and documented but still much confused buzzwords in banking and policymaking fields. In the most simplistic way, it can be termed as "banking for the poor". Suggested by the name, most transactions under "microfinance" involve small amounts of money. But the connotation of the term has a much wider meaning. It is claimed to be a powerful tool, which can be used effectively to address poverty, empower the socially marginalised poor and strengthen the social fabric. And when it is directed at women, the benefits accruing out of the microfinancing activities are expected to multiply manifold. That is why it is supposed to be changing lives of people in every part of the globe. Today, microfinancing is considered to be a more subaltern way of providing financial assistance to our less privileged brothers and sisters.

In India, microfinance has been defined by the Task Force on Microfinance as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. As per the definition of International Labour Organisation (ILO), microfinance is an economic development approach that involves providing financial services through institutions to low income clients.

The way in which the banking sector has evolved the world over has not been truly inclusive. So, people with no or meagre physical collateral get completely marginalised. However, it is heartening to see that of late policymakers across the globe have realised that it is difficult to sustain the growth momentum unless the marginalised masses are brought into the mainstream economy. This has increased the general level of interest in newer and innovative ways of providing financial and banking assistance to marginalised people.

Actually in some form or the other, the concept of "microfinance" always existed in almost each and every society. But as a more formal and modern process, the history can be traced back to actions of the Marshall Plan at the end of second world war the middle of the 20th century or even back to the mid-1800s and the writings of abolitionist/legal theorist Lysander Spooner who wrote about the benefits of numerous small loans (for entrepreneurial activities) to the poor as a way to alleviate poverty. In Indonesia, the Indonesian People's Credit Banks (BPR) or The Bank Perkreditan Rakyat was set up in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units.

However, in its most recent incarnation, it can be linked to several organisations that were set up in the 1970s and subsequent decades. Some of the initiatives, which founded the microfinance revolution of today, can be enlisted as follows:

In 1959, Akhter Hameed Khan as the founder of Pakistan (now Bangladesh) Academy for Rural Development introduced the revolutionary idea of micro-credit (microfinance), thereby opening a new door for millions of destitute and underprivileged people. His Comilla Cooperative Pilot Project is considered a model of micro-credit and rural development initiatives in developing countries.

In 1971, Al Whittaker and David Bussau established Opportunity International, which provides opportunities for people in chronic poverty to transform their lives by creating jobs, stimulating small businesses, and strengthening communities. Small loans ranging from \$ 25 to \$ 500 helped poor families lift themselves out of poverty with dignity. In 1973, ACCION International, started to focus on providing economic opportunities to poor people instead of working on construction/infrastructure projects in order to create lasting improvements in the lives of those they were helping. In 1976, Muhammad Yunus founded the Grameen Bank (GB) to make loans to poor Bangladeshis. As of December 2006, it has 6.91 million borrowers, 97 per cent of whom are women. With 2,319 branches, GB provides services in 74,462 villages, covering more than 89 per cent of the total villages in Bangladesh.

In the 1980s FINCA International started micro-credit facilities in Bolivia. John Hatch, founder of FINCA, named this as "village banking". In India too, the National Bank for Agriculture and Rural Development (NABARD) finances more than 500 banks that on-lend funds to self-help groups (SHGs). SHGs comprise 20 or fewer members, of whom the majority are women from the poorest castes and tribes.

Some of the most recent strategic policy initiatives in the area of microfinance taken by the government and regulatory bodies in India are as follows: (1) Working Group on Credit to the Poor through SHGs, NGOs, NABARD, 1995; (2) The National Microfinance Taskforce 1999; (3) Working Group on Financial Flows to the Informal Sector (set up by the PMO), 2002; (4) Microfinance Development and Equity Fund, NABARD, 2005; (5) Working Group on Financing NBFCs by Banks-RBI. In addition to the initiatives taken by the central government, various state governments like AP, MP, Rajasthan, Bihar and

Orissa have also developed certain platforms for the microfinance services.

Similar programmes are evolving in Africa and south-east Asia with the assistance of organisations like Opportunity International, Catholic Relief Services, CARE, APMAS Oxfam and Ford Foundation.

The concept of microfinance today has become a major credit disbursement mechanism in many parts of the world. Today, the term microfinance refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients. Microfinancing generally cover the following activities:

Micro-credit: It is a small amount of money loaned to a client by a bank or other institution. Micro-credit can be offered, often without collateral, to an individual or through group lending.

Micro-savings: These are deposit services that allow one to save small amounts of money for future use. Often without minimum balance requirements, these savings accounts allow households to save in order to meet unexpected expenses and plan for future investments.

Micro-insurance: It is a system by which people, businesses and other organisations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on developing their businesses while mitigating other risks affecting property, health or the ability to work.

Remittances: These are transfers of funds from people in one place to people in another, usually across borders to family and friends. Compared with other sources of capital that can fluctuat[e] depending on the political or economic climate, remittances ar[e] a relatively steady source of funds.

There are several microfinancing institutions (MFIs), non government organisations (NGOs), self-help groups (SHGs) banks and other institutions, which are actively engaged i[n] microfinancing activities with innovative methods.

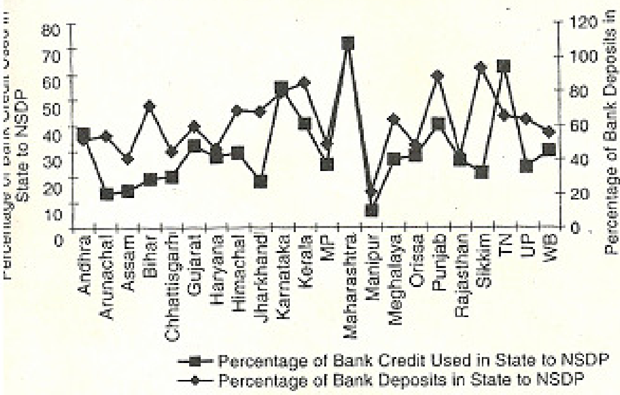
II
Relevance of Microfinance to India

Analysing Indian Credit Needs

At present, micro lending to the economically active poor – both urban and rural – is pegged at around Rs 7,000 crore i[n] the Indian banks' credit outstanding. As against this, accordin[g] to even the most conservative estimates, the total demand fo[r] credit requirements from this part of Indian society is somewher[e] around Rs 2,00,000 crore. So, there is a need for a mix of bank[s] and other intermediaries who can help to meet this demand-suppl[y] mismatch.

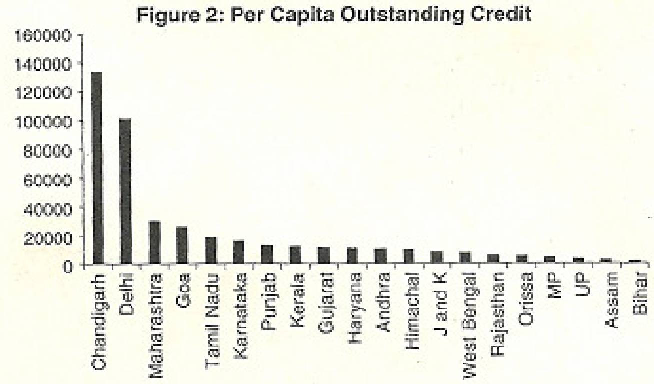
This is a huge gap, which the Indian banking industry alon[e] can never be able to fill in. Deprived of these banking facilities the rural and semi-urban Indian masses are still relying o[n] informal financing intermediaries like moneylenders, famil[y] members, friends, etc. According to one estimate, moneylender[s] still meet more than 56 per cent of rural people's credit need[s]

Figure 1: Skewed Bank Expansion



Source: *Economic Surveys*, RBI, (SDP data for 2003-04).

Figure 2: Per Capita Outstanding Credit



Source: RBI, all figures for 2005. MP, UP and Bihar figures also contain figures of Chhattisgarh, Uttaranchal and Jharkhand respectively. Population as per 2001 Census.

But there are some government statistics, which show that the share of institutional credit is much more now (Table 1).

Whatever be the quantum of non-institutional credit, there is no doubt that the share of institutional credit has to improve further. That is why more and more emphasis has now been placed on providing finance and other banking options to the un-banked masses through MFIs, NGOs, SHGs and other financial institutions.

The above survey result shows that till 1991, institutional credit accounted for around two-thirds of the credit requirement of rural households. This shows a comparatively better penetration of the banking and financial institutions in rural India.

Now, let us look at the way in which the relative share of different credit disbursing mechanisms have fared in the last 50 years (Table 2). Table 2 shows the increasing influence of moneylenders in the last decade. The share of moneylenders in the total non-institutional credit was declining till 1981, started picking up from the 1990s and reached 27 per cent in 2001 (as shown in the latest All-India Debt and Investment Survey, AIDIS-2002).

At the same time, the share of commercial banks in institutional credit has come down by almost the same percentage points during this period. Though, the share of cooperative societies is increasing continuously, the growth has flattened during the last three decades. One more startling fact that came out from the All-India Debt and Investment Survey, AIDIS-1992 was that the households with a lower asset size were unable to find financing options from formal credit disbursement sources. This was due to the requirement of physical collateral by banking and financial institutions for disbursing credit. For the households with less than Rs 20,000 worth of physical assets, the most convenient (though costly) source of credit was non-institutional agencies like landlords, moneylenders, relatives, friends, etc (Table 3).

One more aspect, which needs mention, is the purpose or reason behind taking credit. For this, we can look at the findings of a study commissioned by Asia Technical Department of the World Bank (1995). The study observed that the priority across different types of financial services among the rural poor was in the order of consumption credit, savings, production credit and insurance. Not only did consumption constitute two-thirds of credit usage, but even within consumption credit, almost three-fourths of the demand was for short periods to meeting emergent needs such as illness and household expenses during the lean season.

Table 1: Distribution of Indebted Rural Households: Agencywise

Credit Agency	Percentage of Rural Households
Government	6.1
Cooperative societies	21.6
Commercial banks and RRBs	33.7
Insurance	0.3
Provident fund	0.7
Other institutional sources	1.6
All institutional agencies	64.0
Landlord	4.0
Agricultural moneylenders	7.0
Professional moneylenders	10.5
Relatives and friends	5.5
Others	9.0
All non-institutional agencies	36.0
All agencies	100.0

Source: Debt and Investment Survey, GoI 1992.

Table 2: Relative Share of Borrowing of Cultivator Households
(in per cent)

Sources of Credit	1951	1961	1971	1981	1991	2002*
Non-institutional	92.7	81.3	68.3	36.8	30.6	38.9
Of which:						
Moneylenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
Of which:						
Cooperative societies, etc	3.3	2.6	22.0	29.8	30.0	30.2
Commercial banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	-	-	-	-	3.1	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: * AIDIS, NSSO, 59th round, 2003.
Source: All India Debt and Investment Surveys.

Table 3: Distribution Based on Asset Size of Rural Households
(in per cent)

Household Assets (Rs '000)	Institutional Agency	Non-institutional Agency	All
Less than 5	42	58	100
5-10	47	53	100
10-20	44	56	100
20-30	68	32	100
30-50	55	45	100
50-70	53	47	100
70-100	61	39	100
100-150	61	39	100
150-250	68	32	100
250 and above	81	19	100
All Classes	66	34	100

Source: Debt and Investment Survey, GoI, 1992.

While almost 75 per cent of the production credit (which accounted for about one-third of the total credit availed of by the rural masses) was met by the formal sector, mainly banks and cooperatives, almost the entire demand for consumption credit was met by informal sources at high to exploitative interest rates that varied from 30 to 90 per cent pa. Due to the inability of poor borrowers to offer any security for their small consumption loans, they were unable to take short-term consumption loans from the formal banking system even though the RBI guidelines did provide for granting of consumption credit by banks. Consequently, a large number of the rural poor continued to remain outside the fold of the formal banking system.

Banking Expansion

Increasing access to credit for the poor has always remained at the core of Indian planning in fighting against the poverty. Starting in the late 1960s, India was home to one of the largest state interventions in the rural credit market. This phase is known as the "social banking" phase.

It witnessed the nationalisation of existing private commercial banks, massive expansion of branch network in rural areas, mandatory directed credit to priority sectors of the economy, subsidised rates of interest and creation of a new set of regional rural banks (RRBs) at the district level and a specialised apex bank for agriculture and rural development (NABARD) at the national level.

These measures resulted in impressive gains in rural outreach and volumes of credit. The branches of commercial banks and the RRBs increased from 8,321 in the year 1969 to 68,282 branches as at the end of March 2005. The average population per branch office has decreased from 64,000 to 16,000 during the same period. This a spectacular growth in providing banking services to the masses.

However, there are certain under-banked states such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chhattisgarh, Jharkhand, West Bengal and a large number of north-eastern states, where the average population per branch office continues to be quite high compared to the national average, particularly in rural areas.

This skewed banking expansion becomes apparent when we consider deposits of scheduled commercial banks and bank credit as a proportion of net state domestic product (NSDP) at current prices. The NSDP is a measure of the economic activity in the state and comparing it with the utilisation of bank credit or bank deposits indicates how much economic activity is being financed by banks and whether there exists untapped potential for increasing deposits in that state. Figure 1 shows bank credit utilised in a state as a percentage of NSDP at current prices and bank deposits in a state as a share of NSDP. It also shows some surprising results. For instance, the percentage of bank deposits to NSDP is pretty high in Bihar and Jharkhand, or these states are not as under-banked as thought to be. While it is well known that the north-eastern states are under-banked, states such as Andhra Pradesh, Haryana and Rajasthan, too, have a low bank deposits-NSDP ratio. In contrast, banks have already tapped most of the potential of states such as Punjab and Maharashtra as far as bank deposits are concerned.

Hilly states such as Sikkim, Himachal Pradesh and even Arunachal Pradesh have a surprisingly high proportion of bank deposits to SDP. If banks wish to expand into those areas where the potential of deposits has been relatively untapped, they would have to expand in states such as Andhra Pradesh, Haryana, Chhattisgarh, Madhya Pradesh, Orissa and Rajasthan.

The data on "bank credit utilised to SDP" gives more predictable results, with the north-eastern states at the bottom of the ladder along with Bihar and Jharkhand, while the southern states do very well. Gujarat's relatively low rank is probably because businesses there have access to different sources of funding besides commercial banks such as non-banking financial institutions, cooperative banks and equity.

This skewed banking expansion is also reflected in the per capita credit outstanding of some of states and union territories. Here, we can see a huge disparity in the per capita outstanding credit in Chandigarh and Delhi on the one hand and the rest of the states on the other. Bihar and Jharkhand stay at the bottom of the list here with just Rs 1,937 as per capita outstanding credit, whereas, the figures for Chandigarh and Delhi surpass the "one lakh" mark.

Due to the nature of the expansion of banking services in the country and constraints on banking entities, microfinance and microfinancing institutions have gained immense relevance today. The microfinancing activities of banks and self-help groups have grown to new heights. Table 4 shows the figures till March 2006. It depicts how much the SHG-bank linkage programme initiated by NABARD has helped millions of Indians in improving their lifestyle and also contributing to the development of the economy.

III
International Experience in Microfinance

Microfinance has changed many lives in diverse societal settings across the globe. It is being exploited as a tool for financial liberation in underdeveloped, developing and even developed countries. It tries to create a more inclusive financial universe for the whole society. By trying to bring more people in the network, an inclusive financial sector allows poor and low-income people to access credit, insurance, remittances and savings products. In many countries, the formal and institutional financial sectors do not provide these services to the lower income segments of the market. An inclusive financial sector will support the full participation of the lower income levels of the population to promote economic growth. Now, let us have a look at some of the best practices across the world.

Developing and Least Developed Countries

Asia, Latin America and Africa badly need a financial system that is more inclusive in nature. The reason behind this is that there is already a scarcity of capital even for funding the basic

Table 4: Progress under Microfinance Programmes

	Cumulative No of Persons Reached (In Lakh)	Cumulative SHG Loan Disbursed (In Rs Crore)
NABARD	1,649.00	11,397.00
SFMC	26.25	761.81
RMK	5.48	147.53
FWWB	5.29	240.10
Total	1,686.02	12,546.44

Source: NABARD, SIDBI Foundation for Micro-Credit (SFMC), Rastriya Mahila Kosh (RMK) and Friends of Women's World Banking (FWWB).

minimum growth. The financial and banking institutions in these countries (due to their inability to acquire enough funds) find themselves unable to address the micro-credit demands. Because of this, several new institutions cropped up in these countries, which were addressing the problem of unavailability of funds to the poor or people with small physical assets. Governments, regulators and international institutions have started giving assistance to these institutions for a better microfinancing institutional framework.

Policymakers started realising that these microfinancing institutions are potentially a very significant contribution to gender equality and women's empowerment, as well as pro-poor development and civil society strengthening. Through their contribution to women's ability to earn an income these financing activities have the potential to initiate a series of "virtuous spirals" of economic empowerment, increased well-being of women and their families and wider social and political empowerment. Microfinance services and groups involving men also have the potential to question and significantly change men's attitudes and behaviour as an essential component of achieving gender equality.

Thus microfinance programmes targeting women became a major plank of donor poverty alleviation and gender strategies in the 1990s. Increasing evidence of the centrality of gender equality to poverty reduction and women's higher credit repayment rates led to a general consensus on the desirability of targeting women. Microfinancing programmes, thus, are also serving as a tool for "social re-engineering" for policymakers across the world, especially the least developed and developing countries.

There are several successful examples from these parts of the world that have been instrumental in improving the living conditions of small farmers, artisans, pensioners, etc. And these have been done with a "positive bias towards the women" of these segments of the society. We will look at some of them:

Grameen Bank, Bangladesh: The Grameen Bank is the brainchild of the economist and Nobel laureate Muhammad Yunus. In 1976, he experimented with his ideas of micro-credit in the village of Jobra and other villages. The bank was immensely successful and the project, with government support, was introduced in 1979 in Tangail district (to the north of the capital, Dhaka). The bank's success continued and it soon spread to various other districts of Bangladesh and in 1983 it was transformed into an independent bank by the legislature of Bangladesh.

The bank today continues to expand across the nation and still provides small loans to the rural poor. As of December 2006, Grameen Bank branches numbered over 2,319 providing services in 74,462 villages, covering more than 89 per cent of the total villages in Bangladesh. It has 6.91 million borrowers, 97 per cent of whom are women.

The system is the basis for the micro-credit and the SHG system. Each group of five individuals are loaned money, but the whole group is denied further credit if one person defaults. This creates economic incentives for the group to act responsibly (such as other members then being able to receive additional loans), increasing Grameen's economic viability.

In a country in which few women may take out loans from large commercial banks, the fact that most (97 per cent) loan recipients are women is an amazing accomplishment. In other areas too, Grameen's track record has been astonishing, with very high payback rates – over 98 per cent. More than half of Grameen borrowers in Bangladesh (close to 50 million) have risen out of acute poverty thanks to their loan, as measured by such standards as having all children of school age in school, all household members eating three meals a day, a sanitary toilet, a rainproof house, clean drinking water and the ability to repay a 300 taka-a-week ($ 8) loan.

ShoreBank, USA: There are some communities even in the developed economies, which are at a comparative disadvantage in acquiring loans. Milton Davis founded ShoreBank in 1973 for lending to underserved communities and in the development of micro-credit and microfinance loans benefiting local residents in the South Side of Chicago. Frequently called the "inventors" of community development banking, ShoreBank's successful community lending models have been the inspiration for community development banking institutions around the world.

Over the last 30 years, loans made by ShoreBank, especially home mortgage loans and loans to small businesses, have contributed to the economic resurgence of Chicago neighbourhoods like Kenwood, Chatham, Bronzeville, Austin, and most dramatically, South Shore. Over one-quarter of all mortgage and rehab loans in the South Shore area have been made through ShoreBank. ShoreBank has helped finance the purchase and renovation of 49,000 affordable housing residences. Between 2000 and 2006, it issued nearly $ 900 million in loans to citizens in Chicago, Detroit, and Cleveland.

ShoreBank today has branches in Chicago's South and West sides, Cleveland, and Detroit. It has affiliates in Oregon and Washington State, and in Michigan's Upper Peninsula. ShoreBank's international consulting services have offices in Chicago, Washington DC and London, and projects in 30 countries around the world.

IV
Key Issues for Indian Banks in Microfinance

Now, let us look at some of the major issues, which are related to the microfinance activities and institutions. The issues range from the necessity to the viability of the programmes itself.

Indian Banks' perspectives: Risk- return analysis: Risks involved in lending to small borrowers imply a high probability of default of repayments. There are many interesting observations in this regard.

Experience in micro-lending of different social agencies suggests that poor people are more prompt in repaying debts. For example, the repayment for Grameen Bank is 98 per cent; SEWA is more than 92 per cent, etc. The repayment rate is as high for almost all micro-lending institutions, as the default rate hovers around a maximum of 10 per cent only.

However, according to the statistics, the default rate for banks in the same segment is as high as 40 per cent. That is why the banks feel a bit hesitant in providing micro-credit to poor people. Apart from the default risk, micro-credit also has yield risks and price risks attached to it. Banks and other formal credit disbursement institutions are exposed to the following risks and impediments in the area.

– Credit risk
– High transaction and service cost

– Absence of land tenure for financing housing
– Irregular flow of income due to seasonality
– Lack of tangible proof for assessment of income
– Unacceptable collaterals such as crops, utensils and jewellery.

But when we look at the returns that can accrue from this segment, it will be a good business proposition to increase lending to this sector. Looking at the Indian scenario, the size of the credit requirement is expected to be much more than the estimation of the market size of 50 million families and between Rs 30,000 and Rs 45,000 crore. If the dimension is expanded to include the relative poor rather than only the absolute poor, the market size may expand to 50 per cent of the population. This is a huge market that any business entity can hardly ignore. This is the reason that more and more banks and other institutions are coming to the micro-credit sector.

Most of the risks mentioned above are mainly operational in nature. So, the banks should develop a framework that helps in minimising these operational risks. Working in tandem with the MFIs, NGOs, agri business houses and other organisations with sufficient reach in these areas is an absolute necessity. As these organisations work at the grassroot level with the help of a huge volunteer network, they have a better understanding of the credit needs of their clients. They also have an idea of the cash flows of the clients. This will help in better targeting of the client groups and a low default risk in the repayments. Also, these organisations can give greater insights in developing products according to the needs of the client groups.

Barriers faced by Indian banks in microfinancing: The barriers to our banks are mainly regulatory, policy-related and operational. As per the regulatory norms, there are caps on the number of branches or extension counters that any bank can open. This puts a serious limitation on banks even when they want to open more branches in a profitable area vis-a-vis microfinance operations.

Standard and regulatory requirements with which commercial banks have to comply, particularly regarding unsecured lending, and interest rates are not particularly suitable for microfinance operations. The organisational structures, procedures, products and methods used by our banks are not suited to microfinance, and changing them would be time-consuming and expensive. Our banks' marketing, appraisal and supervision capacity for microfinance lending is quite inadequate.

There are also cultural barriers, which are difficult to overcome. Often the staff of Indian banks would perceive poor people as unbankable and would not like to reach out to them.

V
Microfinance Development Strategy for Indian Commercial Banks

First of all, it is necessary to appreciate that microfinance is not a panacea but is one of the effective tools to help poor people from a self-development perspective.

Extremely poor people like people suffering from under and/or malnourishment, illnesses, lack of skills, etc, cannot be a target for microfinance. This is because intervention in the form of microfinance will not be an efficient solution for them. The problems of such people have to be tackled at the government level through an appropriate mix of welfare measures. For these people, as Robinson has said – "Microfinance is the next step – after they are able to work".

So the prime most task for our commercial banks is to examine and identify first the target groups for microfinance operations. Once identified, they can start their activities by focusing on these people's total needs – as deprived people require much broader interventions. For instance, micro-entrepreneurs with meagre capital need not just financial capital or services but also a home, good health, education for their children, etc. Our banks have to create specialist cells to study the total requirements of these groups and come out with tailor-made products and services for them. They must also understand that these groups are heterogeneous in nature and, hence, the banking products/services developed for them have to be highly diversified and target-specific.

Close coordination and communication with other banks and institutions that have specialised in different functions like SIDBI or NABARD is also a must from the risk-management perspective.

Indian commercial banks may be involved in microfinance both indirectly or directly. In the first case, they can offer operational banking support to microfinance institutions or NGOs; or refinance a microfinance institution; or participate in the "equity" of such an institution. Otherwise, they can directly create ad hoc products and services for targeted clients or open branches or windows dedicated to microfinance. The staff at these dedicated branches would also undertake primary as well as secondary market research on the types and size of activities run by micro-entrepreneurs and the characteristics of the industries they work in.

While microfinance is still an evolving sector in a country like India, in many developed countries it is highly commercialised; partnerships are being created, public and private sectors' assets are being leveraged, and know-how is being shared. The lessons from some of the best managed microfinance institutions around the world show that use of certain methods like group lending, peer guarantees, step-ladder lending, matching repayment terms with borrower cash-flows, etc, have contributed largely to their success. Also, they have competently used information technologies and performance-linked incentives for their staff.

The microfinance portfolio would enable commercial banks to diversify their operations considerably. However, the "coordinated and collaborative approach" alone would be the right answer to bring marginalised communities into the mainstream of the national economy. The continuous flow of innovations in designing new products and services would produce the desired results on a sustainable basis.

The use of computers and telecom equipment is to be encouraged by PSBs in these branches and institutional investors and directors on these banks' board may conduct sample checks of operating data and systems in their branches with a fixed periodicity. Also, customer satisfaction audits in microfinance operations may also be conducted by independent agencies from time to time for improving governance and transparency.

Most of all, the strong and firm commitment of the top management of the bank to microfinance operations is the essential precondition for the sustainability of this business in any commercial bank. EPW

Email: cmd@bankofbaroda.com