

SCENARIO OF MICROCREDIT IN INDIA – AUGUST 2010

CRITERIA		EXOGENOUS MICROCREDIT					ENDOGENOUS MICROCREDIT	
		INFORMAL MARKET	FORMAL MARKET					
Type of actor		Money lender	Government	Public Bank	Private Bank	MFI <sup>1</sup>	C@P	SHG <sup>2</sup>
Profile of the lending organism		<ul style="list-style-type: none"> <li>➤ Individual</li> <li>➤ Private</li> <li>➤ Profit</li> </ul>	<ul style="list-style-type: none"> <li>➤ Institutionnal</li> <li>➤ Public</li> <li>➤ Non profit</li> </ul>	<ul style="list-style-type: none"> <li>➤ Public Sector</li> <li>➤ Profit</li> </ul>	<ul style="list-style-type: none"> <li>➤ Private Sector</li> <li>➤ Profit</li> </ul>	<ul style="list-style-type: none"> <li>➤ Private Sector</li> <li>➤ Profit</li> </ul>	<ul style="list-style-type: none"> <li>➤ Private Sector</li> <li>➤ Non profit</li> </ul>	<ul style="list-style-type: none"> <li>➤ Public Sector</li> <li>➤ Profit</li> </ul>
Fund distribution mechanism	Beneficiaries	<ul style="list-style-type: none"> <li>➤ Men and women</li> <li>➤ Individual</li> </ul>	<ul style="list-style-type: none"> <li>➤ Men and women</li> <li>➤ District/ Panchayat/ Federation/ SHG/ individual</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly women</li> <li>➤ Mostly SHGs</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly women</li> <li>➤ Mostly SHGs</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly women</li> <li>➤ Mostly individual</li> <li>➤ JLG<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly women</li> <li>➤ Mostly SHGs</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly women</li> <li>➤ Individual</li> </ul>
		Individual	Collective officially (to the JLG) but individual in reality (loan reallocated to every members) <sup>4</sup>	Collective officially but individual in reality	Collective officially but individual in reality	<ul style="list-style-type: none"> <li>➤ Mostly individual</li> <li>➤ Collective officially but individual in reality</li> <li>➤ Really collective</li> </ul>	Really collective	Individual
	<ul style="list-style-type: none"> <li>➤ Urbain / Semi-urban</li> <li>➤ Rural</li> </ul>	Mostly rural	<ul style="list-style-type: none"> <li>➤ Urban/semi-urban</li> <li>➤ Rural</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly urban/ Semi-urban</li> <li>➤ Rural</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly urban</li> <li>➤ Semi-urban</li> <li>➤ Rural<sup>5</sup></li> </ul>	Mostly rural	<ul style="list-style-type: none"> <li>➤ Urban</li> <li>➤ rural</li> </ul>	
Intermediaries		<ul style="list-style-type: none"> <li>➤ Direct financing: from the money lender to the individual</li> </ul>	<ul style="list-style-type: none"> <li>➤ Direct financing :                             <ul style="list-style-type: none"> <li>• Mostly through NGOs</li> <li>• Through the Rural Development Department</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly direct financing:                             <ul style="list-style-type: none"> <li>• SHG Bank Linkage Program</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Mostly MFIs</li> <li>➤ Direct financing:                             <ul style="list-style-type: none"> <li>• SHG – MFI Bank Linkage Program</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Direct financing:                             <ul style="list-style-type: none"> <li>• Mostly to individuals</li> <li>• To the JLG</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Indirect financing :                             <ul style="list-style-type: none"> <li>• From C@P to the NGO</li> <li>• From the NGO to the SHG</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>➤ Direct financing: from the group to the individual</li> </ul>

<sup>1</sup> MFI : Microfinance Institution (or NBCF : Non Banking Finance Company)

<sup>2</sup> SHG : Self Help Group (10 to 20 members, most women, cf. Microcredit management by Women's SHG, Dr U. Jerinabi (2006)).

<sup>3</sup> JLG : Joint Liability Group (several dorms: SHG, Grameen Group (5 to 6 women)...) )

<sup>4</sup> « Groupes à responsabilité solidaire », groups with united responsibility (Esther Duflo, Chaire Internationale « Savoirs contre la pauvreté », January 2009

<sup>5</sup> MFIs are less present than banks in rural areas in number, but they reach the poorer more easily because they were NGOs (before convert to Microfinance Institutions)

		Money lender	Government	Public Bank	Private Bank	MFI	C@P	SHG
		Individual	Collective (the SHG repays)	Collective (SHG)	Collective (SHG)	Collective (SHG) ➤ Individual	Collective (SHG)	Individual
Technical criterias	Responsability							
	Amount in Indian Rupee (INR) <sup>6</sup>	Low : 1000 to 10 000 INR/person	Medium to high : 30 000 to 100 000 INR / SHG <sup>7</sup> : ➤ 3/4 as subsidies ➤ 1/4 as "revolving funds" <sup>8</sup> .	Medium to high : 30 000 to 3 lakhs (= 300 000) INR / SHG	Medium to high : 30 000 to 3 lakhs INR / SHG	Low : 5000 et 10 000 INR / SHG : ➤ Progressive loans ➤ Repetitive ➤ Often on the same beneficiaries	High : 1 to 4 lakhs INR / SHG , including : ➤ NGO payment ➤ Formation expenses	Low : 1000 to 10 000 INR / person
	Interest Rate (effective)	Very high rates : ➤ 50 to 100% / year ➤ Day loans : 5 to 10% <sup>9</sup> , for fruits and vegetables lenders for instance	Low and subsidized rates: ➤ 10 to 15% / year	Low rates : ➤ 10 to 15% / year ➤ + diverse expenses (administrative) , so 3 to 4% more	Low rates : ➤ 10 to 15% / year + diverse expenses (administrative) , so 3 to 4% more	high rates: ➤ 25 to 30% / year <sup>10</sup>	Low rates : ➤ 0% from C@P to the NGO ➤ 10 to 15% / year from the NGO to the SHG	High rates : ➤ 2% / month so 24% / year (imposed by the government) <sup>5</sup>
	Repayment frequency	➤ Daily (repayment at the same evening) ➤ Every week ➤ Every month	➤ Every month	➤ Every month ➤ Repayment begins the first month after the credit deposit	➤ Every month ➤ Repayment begins the first month after the credit deposit	➤ Every week ➤ Every month <sup>11</sup>	➤ Every month ➤ The repayment never begins the first month after the deposit (to let time to the group to settle the activity)	➤ Every month

<sup>6</sup> 1000 INR = 16,76 € = 21, 35 \$

<sup>7</sup> Cf. NABARD Report (Status of Microfinance in India 2008 – 2009)

<sup>8</sup> The revolving funds have to be repayed at 1% interest rate, and once repaid, they can be used for another credit, that is why named "revolving"

<sup>9</sup> Cf. « Is Microfinance Too Rigid? » Dean Karlan and Sendhil Mullainathan, Innovations for Poverty Action, and Jameel Poverty Action Lab

<sup>10</sup> MFI and banks usually propose flat rates (which do not fluctuate when the balance decreases : so the real interest rate is twice the interest rate announced) », Esther Duflo, Chaire Internationale « Savoirs contre la pauvreté », Collège de France, January 2009

<sup>11</sup> Cf. Esther Duflo, Chaire Internationale « Savoirs contre la pauvreté », Collège de France, January 2009

<b>Social purpose of the credit</b>	Creation of an economic activity	<b>Money lender</b>	<b>Government</b>	<b>Public Bank</b>	<b>Private Bank</b>	<b>MFI</b>	<b>C@P</b>	<b>SHG</b>
		Not necessarily	Not necessarily	Not necessarily	Not necessarily (even if primarily microcredit had to permit the creation of an activity)	Compulsory (it is lend to launch a collective micro-enterprise)	Not necessarily	
<b>Monitoring and evaluation of the project</b>		Nil role (focused on repayment)	<ul style="list-style-type: none"> <li>➤ Few monitoring</li> <li>➤ No impact evaluation</li> </ul>	Few monitoring and evaluation (more than the money lender but less than the private bank)	Few monitoring and evaluation (but some private banks such as HDFC, HSBC, ICICI,...) have a direct link with SHGs, Federations, thanks to the coordinators on the field)	<p>Medium to low:</p> <ul style="list-style-type: none"> <li>➤ Make sure of the good repayment of the credit (more efficient than banks in this case)</li> <li>➤ Focus on repayment, and less on the impact</li> </ul>	<p>High:</p> <ul style="list-style-type: none"> <li>➤ C@P team Pondicherry monitoring directly the the development of the microenterprise (field visit, reporting, communication ...)</li> <li>➤ Trainings to improve their skills</li> </ul>	Few monitoring and evaluation

RECAPITULATIVE SCHEME OF MICROCREDIT FLOWS IN INDIA

