Chapter 8
A Technology Requirements and Governance Framework for Rural Microfinance: An Indian Perspective

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ABSTRACT
Governments and Financial Institutions in the emerging economies have recognized the enormous untapped potential of human capital at the “Bottom of the Pyramid,” for fuelling the growth of the economy, and have identified easy access to capital as a key factor in realizing this potential. Many of the central banks and financial services trade associations are also in the process of creating a regulatory and governance framework that is conducive for financial services players to fulfil the need and the potential of this market, at the same time minimising the risks for all stakeholders. The Microfinance sector is thus seeing a rapid expansion in terms of geographical reach, and an explosive growth in terms of the number of service providers and customers. Given that Information Technology (IT) is a critical enabler for this growth, there is a large rush of IT providers eager to service this market. This brings with it (a) the risk that inappropriate or substandard IT solutions are implemented, resulting in wastage of resources, and (b) the potential for misuse and fraud. This chapter makes a case for creating an IT requirements and governance framework at a policy level, in order to ensure that the needs of this market are properly serviced, and resources are optimally and efficiently deployed, so that the benefits of Information Technology flow through to the grassroots level.

INTRODUCTION
It would be a truism to state that Information Technology is of crucial importance as an infrastructural component to support the smooth operation of the Microfinance market – both for the supply side and the demand side of the equation. As for the supply side (the financial institutions providing micro finance), it is critical for increasing the outreach, extending geographical jurisdiction, enhancing operational efficiency, optimising utilisation of internal resources (manpower, money and time),
and providing accurate management information to the financial institution. On the demand side at the Bottom of the Pyramid, technology has the potential to mobilise savings and make capital more easily accessible by bringing financial products to the doorstep of the customer.

As a natural result of the enormous opportunity created by the Microfinance market for hardware and software solutions, there is the risk that a large number of players would enter the market, many of them trying to sell “half cooked” or inappropriate solutions in order to cash in on the opportunity. This could impede the functioning and growth of the market. This chapter outlines a framework for laying down and enforcing a set of functional and technology standards that Microfinance Institutions are required to follow, for procurement and implementation of technology solutions.

**BACKGROUND**

The microfinance sector has seen explosive growth in India in the last decade, and is poised for even more aggressive growth in the coming few years, due to various policy initiatives of the Ministry of Finance, the Reserve Bank of India and other government owned financial institutions. In India, microfinance is provided by a variety of entities, including banks (commercial banks, Regional Rural Banks, Co-operative Banks) and Microfinance Institutions (MFIs, that include Non Banking Finance Companies, Not for Profit companies, trusts and societies). The number of Self Help Groups (SHG) that got access to accounts in commercial banks is a telling indicator of this growth. The National Bank for Agricultural and Rural Development (NABARD) launched a Self Help Group – Bank Linkage Program (SBLP) in the early 1990’s as an initiative to promote financial inclusion for the poor. Under this project, the total number of SHGs services by banks increased from 33,000 during 1992-99 to 264,000 in 2000-01 and 2,239,000 in 2005-06, and the cumulative bank loans disbursed went up from Indian Rupees. 570 million (roughly US$ 10.4 million at today’s exchange rate of Indian Rupees.50 to the US dollar) in 1992-99 to Indian Rupees. 4.81 billion (US$ 96.2 million) in 2000-01, and Indian Rupees. 113.98 billion (US$ 2.27 billion) (Reserve Bank of India Report, 2008, Chapter V.58). There is no definitive data on the number of MFIs operating in the country, but the Report of the Committee on Financial Inclusion (January, 2008, Para 105) set up by the RBI under the chairmanship of Dr. C. Rangarajan estimates that there are about 1,000 Non Government Organizations (NGO) operating as MFIs, and around 20 company MFIs. The company MFIs dominate the scene, with about 80% of the outstanding loans portfolio. Another estimate, as per the Bharat Micro Finance Report of Sa-Dhan, (March 2008), the 223 member MFIs of Sa-Dhan had an outreach of 14.1 million clients with an outstanding micro finance portfolio of Indian Rupees.59.54 billion (approximately US$ 1.2 billion).

These numbers seem miniscule in comparison to the overall loans portfolio of the banking sector in the country - the aggregate of Loans and Advances in the balance sheets of all Scheduled Commercial Banks (SCBs) in the country reads at Indian Rupees. 24.77 trillion, or US$ 495 billion as of March 2008, of which personal loans constituted Indian Rupees. 486 billion, or roughly US$ 9.72 billion. (Reserve Bank of India’s Report on Trend and Progress of banking in India 2007-2008). However, the numbers must be seen in light of the fact that a large proportion of the population in India still remains outside the purview of the financial systems in the country, formal or informal. In other words, they do not have access to any sort of financial services in the form of credit, savings, insurance, payments, etc. Looking just at the population involved in the agricultural sector alone, “...45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further,
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