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# Go where the moneylenders are and compete with them

The biggest challenge is to provide financial services to a very large portion of the population, says Nachiket Mor, president, ICICI Foundation for Inclusive Growth in an interview to Mint

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**Mumbai:** Nachiket Mor, president of the **ICICI Foundation for Inclusive Growth**, an arm of ICICI Bank Ltd, India's largest private sector bank, is giving shape to its CEO and managing director K.V. Kamath's idea of increasing the incomes of low-income households in a sustainable manner.

The foundation, set up in January, has so far tied up with five non-profit organizations: the Institute for Financial Management and Research (IFMR) Trust, ICICI Centre for Child Health and Nutrition, Centre for Elementary Education, Corporate Social Organisations Partners and Environmental Sustainable Project Finance.



In an interview with *Mint*, Mor spoke on the foundation's activities and its plans. Edited excerpts:

## What is the biggest challenge before you?

The biggest challenge is that there's simply no way to provide financial services to a very large portion of the population. No one knows the exact number of people who are not served, but everybody agrees it's in the neighbourhood of 300 million people. There is no point in arriving at a number because it's so large that no matter what you do, there will still remain lots to be done.

On a mission: Mor says there is no way to provide services to a very large portion of the population, without knowing the numbers involved. (Photo: Abhijit Bhatlekar/Mint)

One of our partners, the IFMR Trust in Chennai, is interested in financial inclusion. We are working with them closely to try and understand what needs to be done and how we can address each piece of the problem.

For instance, how do you originate financial transactions and contact the customers? How do you serve on a day-to-day basis? This is the core problem of every service, and finance is no different. How do we make sure that small businesses are able to get the finance that they need? How do the migrants get finance when they are moving? Traditional models may not work to address these issues.

We must solve the problem of migrants as urbanization is going to accelerate.

Look at the total population living within cities of India and more than this number will migrate from the countryside to urban India over the next 20-30 years. We have to come up with better ideas to serve them.

**Since the traditional approach will not work, how are you addressing this?**

**Click on the icon below for the audio interview with Nachiket Mor**

464f6a80-54bf-11dd-89fa-000b5dabf636.flvWhat is needed is what the government and the Reserve Bank of India tried to do with the local area banks and the regional rural bank model. The core idea was to build specialized region-specific institutions to serve the regions with a full suite of products. However, it did not work. By using better technology, better approaches towards managing personnel and more modern financial products which were not available even five years ago, we can be do a better job.

**Have you introduced any new financial product?**

We are still working on it. For instance, weather insurance is a product that exists, but how do you make it available to the smallest farmer? Commodity derivative is another product. The small farmers need risk protection more than anybody else against price movements.

**What are the roadblocks on the way to financial inclusion?**

It has to be done systematically. The old medicine will not work any more. Pushing to create more rural branches, asking banks to directly fulfil priority sector targets and appointing more agri officers at bank branches are not going to deliver.

One of the partners of the IFMR Trust is experimenting with the branch-based model. They want to go out there, build super-thin branches at the village level, and see if they can deliver a suite of financial services to the villagers.

**What has been the progress so far?**

We have facilitated the growth of some water purification units—about 100, each serving a population of about 10,000, thus touching one million people. We have just started vocational training and involved about 40-50 people.

We have done some work in the food processing industry and handicraft industry.

If you look at the reality on the ground, it's very good to say that we have to make markets work for poor people, but what if the person does not even have basic education? We think that health and education are two areas in which systematic work by the government is the only answer. Our two centres in Pune are focused on how we can improve the capacity of the government to pursue these activities.

We have been working closely with the Chhattisgarh and Jharkhand governments. We have also worked with local bodies in Ahmedabad and Mumbai. In Chhattisgarh, we have worked in the area of curriculum redesign and teacher training. About 40 lakh children have benefited from our efforts.

**How long will you take to cover a substantial portion of the population?**

We have just begun our work and the bulk of the population is unserved.

There are more than 1,00,000 primary credit agricultural societies, but many are not functioning well. The regional rural banks are focusing much of their attention on urban and semi-urban areas. Commercial banks have rural branches, but in a country of 6,00,000 villages, 30,000-35,000 rural branches are not enough. The self-help group, or SHG, movement is successful, but again, it is concentrated in a few states only.

#### **How do you make small microfinance institutions and other developmental institutions access capital to grow?**

Generically, there are buyers for high quality assets. There is clearly a flight to quality assets. People are anxious and nervous (because of the credit crisis) and they would not want to do something completely new. But, if you give them a rated asset at a good price, my belief is banks, mutual funds and insurance funds will all buy. The question is: how do you give them that quality? There is one MFI (microfinance institution) which was able to raise money at very low rates because of the efforts of the IFMR Trust. There is a jam-making company in Himachal Pradesh that has doubled its size because of our partner. Then again, there is a handicraft apparel maker which continues to be able to put its products on the shelves of Shoppers Stop, Big Bazaar and Fabindia because of our partners.

#### **How do you stop people from going to moneylenders?**

The right answer is to introduce more competition and make credit available. After all, nobody is forcing the customer to take money (from the moneylenders). She approaches a moneylender because she has no choice. If you give her choices, she will take the one that suits her best. Which is why the branch-based model is important. You need to be where the moneylenders are and compete with them.

#### **RBI has permitted banks to use moneylenders as correspondent agents. Any progress on that?**

I don't know. There was a discussion paper, but there have been no guidelines on the modalities.

#### **How does ICICI Bank and the foundation work together towards financial inclusion?**

The ICICI group of companies is the sponsor for the foundation and they give 1% of their profits every year. There is no explicit or implicit obligation that we should work with ICICI. The focus of the foundation is improving the system. If other banks want to participate with better products and better ideas, we will work with them.