What we are trying to solve:

Many developing nations have a huge percentage of the work force outside the organised corporate sector. These people face various problems while raising capital to expand or start their business. Let us see the situation of India.

India has about 240 million people in the unorganised sector. They make up for more than 70% of the employment generated in India. These numbers are set to grow. This includes small micro entrepreneurs like electricians, plumbers, stationary store owners, small time farmers etc. It is tough for them to get loans. They need to depend on the private, most of the times on an unregistered money lender to raise capital. Often, these loans are charged with very high percentage of interest. This leads to a debt trap. Microloans in the range of Rs.20,000 – Rs.30,000 are availed the most in India. However, the category of loans in the range of Rs.30,000 - Rs.40,000 saw a rise of 56% between Q3 FY18 and Q3 FY19. The microfinance industry has registered a growth of 44% YoY as on 31 March 2019. (As per CRIF High Mark Report).

All these transactions often happen outside the main stream banking and are not captured. Even registered MFIs often don’t have a digital portal and a digital portal is a seen as an extra cost or burden to maintain. Even one of India’s leading microfinancing firm with more than 1400 branches and with 2.5 million MEs doesn’t have a proper digital platform for making transactions.

DBS having a microfinancing portal bringing MFIs and micro entrepreneurs on the same platform could solve many of these issues and have a big social impact: The end result of microloans should be to have its recipients outgrow smaller loans and be ready for traditional bank loans.

1. MFIs who are registered with the government could disburse loans to a wider network of people.
2. MFIs could leverage on the stats or suggestions provided by DBS while disbursing loans.
3. MEs would benefit from lower interest rates and transparent transactions.
4. Local governments would be keen to have all the transactions captured.
5. Women are major borrowers of microfinance across the world. Most of these women reside in rural parts as well.
6. The Indian microfinance industry has been growing the fastest when compared to other developing nations like Bangladesh, Vietnam, and Peru.
7. Microfinance loans have high repayment rate. This is clearly proof of the effectiveness of this concept.

What’s in it for DBS:

1. In the emerging markets, DBS initially could play the role of just the platform provider. This will leave out worries for the banks like doing KYCs for MEs which might be a big cost to the bank. DBS will have to only do a background check of the MFIs which would be a fraction of the number of MEs. Not participating directly in disbursal of loans, would leave out DBS from lot of regulatory issues.
2. MFIs would have to open an account with DBS, some of them may be high net worth.
3. All the transactions would happen through DBS which might provide greater insights into the market.
4. Some of the MEs might eventually grow to be successful entrepreneur who might be of interest to DBS.
5. DBS could push other products like insurance, credit cards, unit trust etc to people who are deemed trust worthy by analysing the transactions.
6. These lend through the concept of Joint Liability Group (JLG), i.e., an informal group that consists of 5-10 members who seek loans either jointly or individually.
7. DBS can be seen as a social influencer as microfinancing is emerging as one of the most effective tools in reducing poverty in India.