

BANKING OF THE UNBANKABLE- KEY ISSUES AND CHALLENGES IN THE DIGITALISATION OF MICROFINANCE

Abstract

This paper on “Banking of the unbankable: key issues and challenges in the digitalization of microfinance” revolves around one of the most pressing needs of the sector and is based on the methodology of descriptive study of the available literature on the subject. It touches on the growth of the microfinance and rationalizes the critical requirement of regulations. Further the study focuses on the key issues, both the inherent issues in the system and the contemporary issues. The challenges faced in the digitalization process are also analyzed. Further it tries to explain regulations in the general context as well as with reference to microfinance and probes at length the reason as to why regulations are essential in the digitalization. Within this realm it also gives full insight of the regulatory processes at global, national and regional context level. The existing gaps in the regulatory framework is stratified and presented. A connect is also established between the purpose of the regulators, the rationale, the type of regulation and the regulatory intervention which is explained also as a functional model. It also proposes the game change in of microfinance sector to total digitalization as the next level of advancement to achieve total financial inclusion.

Keywords: Microfinance, Regulations, Statutory Provisions, Delinquency, Interest caps.

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I. INTRODUCTION

The primitive form of microfinance can be traced to the ancient religious texts. The use of the word 'usury' figures in many places in the Bible. The koran proclaims that taking interest is against the religious tenets and in the Arthasastra the Hindu religious script where special mentions are made (Sharma,2005).The origin of the word microfinance is not clearly traced but Hans Dieter Siebel claims to have invented the term "microfinance" in 1990 to expand the term microcredit to a broader set of financial services (Seibel,2005).However, the roots of the present-day microfinance (mf) can be traced to the two pioneers Ella Bhatt who initiated the women's own SEWA Cooperative Bank at Ahmedabad and Nobel Laurette Mohammed Yunus who not only introduced microfinance in Bangladesh but redefined and put microfinance on its glorious track to fight the menace of poverty. The United Nations in 2004 declared 2005 as "International Year of Microcredit" putting the first stamp of approval of the international community and the comity of nations. The financial services for the so called "unbankable persons everywhere in the world" thus took a new meaning and recognition. Though the official acclaim of this new found hope to alleviate poverty reached the zenith of prestige when Muhammed Yunus and the bank he founded shared the Nobel Prize in 2006 there are many who look at it with a sceptic eye. The Norwegian Nobel prize committee in its citation wrote "Lasting peace cannot be achieved unless large population group finds ways to break out of poverty". Long before all this the US President Bill Clinton in 2002 asserted that I'll keep on saying until the Nobel Prize is given to him. In 2009 President Obama honoured Prof. Yunus with the Presidential Medal of freedom the highest US Civilian honour for lifting millions from poverty with microloans.

Ever since then, microfinance has grown leaps and bounds and has spread in all the continents and struck roots in almost all countries. The official estimates are that in2018 the client base reached 139.9 million, of whom 80% are women and 65% are rural borrowers. The average growth rate was 11.5% over the past five years. But the growth rate was at a slower pace than in 2000-2010 periods. During the same tenure the growth rate since 2012 stood at 7% compared to a rate of nearly 20% in the past decade. This revealed a slump in the growth rate. In terms of volume the estimated credit portfolio stood at 124.1 billion US dollars and the growth rate +8.5% over the previous year (Microfinance barometer, 2019)

The two current years has witnessed many problems in the microfinance sector more so because of the pandemic Covid-19.Two major happening have opened the eyes and ears of the policy makers. 1) Two years exactly after Prof. Yunus received the Nobel Prize the global financial crisis ribbed the sector. And 2) the present crisis brought out by the Covid-19. These two are primarily universal problems; the former due to the global financial recession and the latter one with a devastating effect newer before recorded in human history and. All these have made a telling effect on the microfinance sector as the clients are poorest among the poor, the unbankable and who do not have any access to any formal credit. Though widely acclaimed as a panacea to end poverty (Karnani, 2009), gradually it has reached a stage of recognition that it is not an all-cure prescription to address poverty. There is also a big cohort of sceptics who sang the chorus of many songs against MF.

Another aspect of the microfinance institutions (MFI) sector is that there is great diversity in the institutions dealing with microcredit. To cite an example the case of India that reveals different types of institutions a) Scheduled Commercial Banks (SCBS) Small finance

Banks (SFB) and Regional Rural Banks (RRBs) building through business correspondents and SHGs b) Cooperative Banks (CB) C) Non-banking financial Banks (NBFC) and d) MFIs registered as NBFCs (RBI, 2021). The same study also brought out another important point of concern that there are 197 MFIs with an outstanding loan of Rs 227942 crores and of this 15 bank account for Rs93,432 crore, 86 NBFC- MFI Rs 70, 196 crore and 8 small finance banks Rs 42,689 crores. Post pandemic the situation is no different in other countries.

These points to a grave crisis crippling the sector which calls for greater controls and regimes, strict regulations and disciplined enforcements of rules and laws. A recalibration of the entire structure is the need of the hour with thorough emphasis on the management and governance. Everything should start ICT enabled system and also end with full transparency. This can be achieved only if the entire system is digitalised but this process calls for revisiting the entire system as it is as of now.

Hence this study has been attempted to make an in-depth analysis of the various key issues plaguing this vital sector which has been hailed as a major reform in pulling out the poor from misery and received rapt attention of society, states, countries and comity of nations. It also tries to dissect the challenges faced by the microfinance industry at large, the regulations that have come in this sector and finally the existing gaps and some rational thoughts on the challenges that would be faced in the microfinance of the future.

II. STATEMENT OF THE PROBLEM

The growth of microfinance in the last decade of nineties and the early twenty first century was one beyond comprehension. The literature itself was loaded with the slogan that microfinance is the way to eradicate poverty. At the pinnacle of recognition started also the realisation of associated problems and the cry for law-based controls started. This cry became more and more loudly just two years after Prof. Yunus received the Nobel Prize in recognition for his work on microfinance when the financial recession and consequent crisis gripped the world. The effect of global downturn in Nicaragua, Morocco, Bosnia, the suicides in Andhra Pradesh state of India and in many countries particularly the organ trafficking in Bangladesh not only showcased the fragility of banking for poor but also the imperative needs of comprehensive laws on regulating the industry as a whole. The growth of microfinance institutions in terms of the business and number of beneficiaries continued to grow with all its inherent deficiencies and problems. The diversity of the MFI is another factor as there are big and small in MFIs, MFIs for profit, not for profit and a mutual aid provider like credit union again formal and informal MFIs each of which are unique and cannot be treated on an even platform. All these problems brought in opportunities mixed with challenges but established one aspect that microfinance needs digitalisation.

A second aspect came in with different laws and rules in place in different countries and core principles and guidelines emerging at the global level but never complete with digitalisation becoming a felt need opening a challenge. Subsequent growth of the sector with securitisation, floating of public issues and direct foreign investment and cross border funding in foreign currency saw a seamless transition of many MFIs to profit model institutions. Thus, many of the MFIs for the poor and of the poor founded on social ethics have taken a new direction. Big or small, for profit or not for profit growth of the sector flourished and the level playing ground changed which necessitated different sets of rules

and regulations. The requirement of what was initially felt as digitalisation and later as regulation began to be felt as an imperative need of both combined. Responsible microfinance also meant good governance and management and digitalisation process had to take into stock both the rules and laws and more importantly a human approach as the subjects are the poor. The digitalisation path became complex with not just processes and procedures nor regulations in digitalisation but with enormous differences and diversity in regulation. This is the biggest challenge now as it has now opened out different sets of rules of the game accommodating the impoverished and financially lesser literate and educated in a technologically driven environment that in itself is not a level playing ground.

III. METHODOLOGY

The study on regulatory challenges in digitalisation is based on a review of existing framework and policies. The methodology is based on literature available on the principles, key issues, challenges and policy framework available within the broad realm of digitalisation in microfinance. The secondary literature available was collected from journals, project reports, books, chapters, institution home pages, websites, handbooks and proceedings of conferences. The literature was critically analysed, conclusions made and categorised under various broad sub headings. In essence this is based on a descriptive study relying on secondary data and hence the reliability and sanctity of the study is based on the truthfulness of the source of literature.

IV. SCOPE OF THE STUDY

The diversity of the types of microfinance institutions, the volume of business and the large clientele base are the unique features that reveals the scope of the study. The growth in number of poor clients and spiralling growth in services has added another dimension to the existing challenges where digitalisation is the only answer to add to the systems efficiency and to infuse a spirit of confidence. The large outreach and the difficulties of COVID-19 which has brought out restrictions on mobility rendering usual business (payments and repayments) still more difficult. The risk due to the pandemic infection and its spread can also be minimised, if microfinance is fully digitalised. For effectively streamlining the process, the prerequisites such as key issues and the challenges that is to be overcome with purposive regulations have to be understood and clearly defined. This is essentially the very basic scope and significance of the study.

V. KEY ISSUES IN MICROFINANCE

A critical analysis of growth of MF would reveal that the problems started with the ontogenic transformation of a concept born in ethics of social banking and entrepreneurship to a profit centred commercial approach. Thus, the social entrepreneurship promoting activity changed taking a back seat and commercial business the front seat. The late part of the first and the early part of the second decade of the 21st century brought to fore some external manifestation of this switch over beginning with meltdown reported in countries like Morocco, Nicaragua, Pakistan, Bosnia, Mexico, Lebanon India. The worst impact of this was experienced in suicides in Andhra Pradesh state of India, (Associated Press, 2012), Marikana massacre in South Africa (Bond, 2012) and organ trafficking in Bangladesh (BBC, 2013). Thus, the focus of attention also moved on from merely an expansion drive to also

identifying the key issues plaguing this sector. The first issue is the part ‘micro’ in the word microfinance is a misnomer as it tends to underestimate the meaning and significance and make the target too small (Bernetein, 2013).

The key issues can be broadly classified as

1. Those inherent to the system

- Small volumes of business and large number of clients catered to (Nobel Peace Prize,2006, Microfinance Information Exchange, Microfinance Barometer 2019)
- Diversity of micro enterprises too large for specialised intervention and back-to-back support as subjects or beneficiaries are the poor or chronically poor (Yunus,2001,2003)
- Most of the clients/ beneficiaries lack both fair level of literacy both financial and educational.
- Large number of MFIs in operation
- Risks are too large as it is not based on collateral and both opportunities and danger are combined (Adams, 2000, Bernstein, 2013), Sustainability warrants a shift from its mission approach to at least a sustainable approach.
- In comparison to the formal banking sector microfinance is more ignored (Dennis, 2011).
- MFIs and individual business often too small or remote for effective regulation (IRIS,2006)

2. Contemporary Issues: Some of the issues gaining momentum and importance are the

- Large credit requirement(Nasir,2010)
- Insolvency concerns as a result of unrestricted rapid expansion (Rozers, 2009).
- Transformation from a donor driven setup to direct links with international capital (CGAP, 2010).
- MFIs turning out as global setup with cross border funding (CGAP, 2010)
- Commercialisation of MFIs with sole target of maximising profits.
- A one-time investment to need to integrate ICT to have efficient governance
- Liquidity issues in the context of covid-19 pandemic.
- Large delinquency rates due to lockdowns, restrictions, mobility issues and low business returns due to the pandemic(Nawai and Sharif 2013).
- Resorting to unfair practices like coercive collection and abusive tactics (Fernando,2010)
- Rising level of indebtedness due to multiple loans (Fernando, 2010)
- Exchange rate risk due to foreign currency funding (CGAP,2010)

An onion model of the broad classes of risk involved is presented in figure-1.

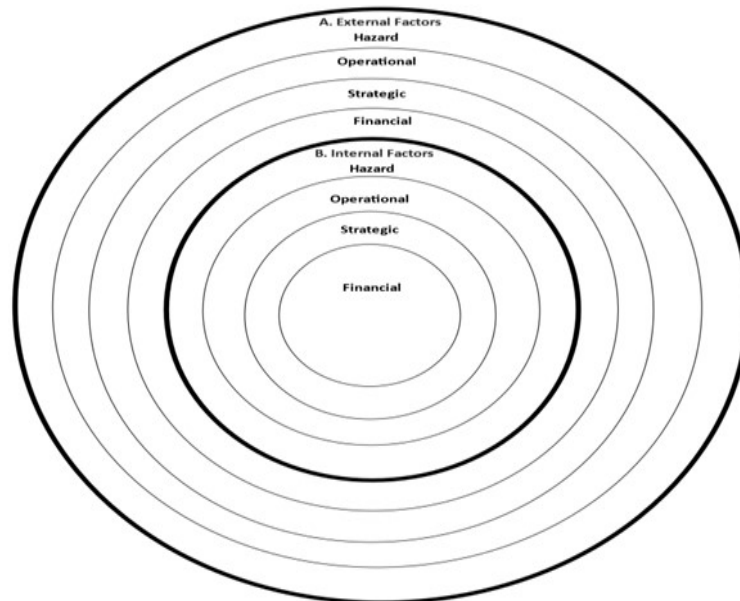


Figure 1: Onion Model Showing the Risk in Microfinance

VI. CHALLENGES

The challenges faced by the MFIs are too many; some that demand immediate attention, some others that need to be viewed from the point of sustainability, and some that needs local and regional thrusts while others that needs prolonged careful scrutiny.

1. The general challenges faced in regulation process are

- Large outreach and clientele base ((Nasir,2010)
- The high interest rates that are at times variable (Maimbo and Gallegos; 2014, RBI 2021, AFPI 2021, Ferari etal, 2018)
- The large delinquency crisis of repayment (FRB, 2007; ADB 2016; Mehnaz and Bilal, 2018).
- Helplessness/ weakness in the present context of pandemic
- A restricted capital base and asset base.
- Making the microfinance loans strictly purpose oriented by focusing on payment for the microenterprise
- Provision for mid-term corrections including restructuring of debts.
- Buffering of risks (both external and internal)
- The high competition between MFIs and multiple loan being issued for same purpose and to the same person

VII. REGULATION IN MICROFINANCE

There is large number of definition on regulation the lexical meaning of the world regulation is an official rule that controls how something is done. On the other hand a

regulation from the standpoint of law is the rule of order having the force of law, prescribed by a superior competent authority, relating to actions of those under the authorities control. Regulations are normally issued by governments enacted by legislatures/ parliament/ congress to carry out the extent of legislation. Financial regulation as defined by Ertugal (2020) is a type of supervision monitoring or regulation which leads financial institutions to some kind of laws, rules, requirements, guidelines and restrictions that aims to maintain the soundness, stability and integrity of the financial system at large.

CGAP (2009) categorised regulations as

- **Self-Regulation:** Regulation or supervision that is effectively controlled by the bodies being regulated or supervised in a predetermined criterion
- **Prudential Regulation:** Regulation aimed to protect the financial system as a whole as well as protecting the safety of small deposits as in individual institutions- such as BASEL principles and CAMELS rating
- **Non-Prudential Regulations:** Outside the central bank purview covering “ Fit and Proper”, “Dos and Don’ts” maintained by various mechanisms by government body, industry association, audit firms, disclosure rating tools etc. and
- **Enabling Regulations:** Regulations having a positive outlook such as removal of external barriers in the business. IMF (2002) made it very clear that all financial institutions are subject to two forms either the prudential regulations the distinction and choice is normally based on the “pros and cons” of provisions.

1. Why regulation is required in digitalisation of MFIs: IMF (2002) has broadly outlined why regulation is required in digitalisation. The reasons

- Protection of interest of depositors
- Protection of borrowers- consumer centric
- Protection of the financial system
- Promotion of the MFI sector and
- Protection of public funds

There is no “fit for all” recipe for regulation in digitalisation. A variety of factors has to be weighed and reviewed in determining how best to regulate and there is nothing like a standard approach or one called appropriate (Chanes and Gonsoles-Vega, 1994; Ledger wood , 1998; Van Grenning et al 1998; Mutenda 2001; Wright , 2000 and Gallardo(2001). A simple rational approach on the connect between the purpose, the reasons, the type of regulation and the regulation intervention is presented in Table-1

Digitalisation of microfinance has immense benefits but also pose many challenges as well (Rayetal, 2018). Broad areas that need clear introspection with respect to regulation in digitalisation are

- **Inequality in the Digitalisation:** The number of active clients with a single credit officer is large for the big MFIs when compared to smaller MFIs (SA. Dhan 2017). If the technology interventions really happen this will affect the balance of efficiency. The large MFIs need and can meet the cost but the small MFIs will find the exercise a

costly affair leading to a projected case- those who can and those who cannot lead to another problem the digital divide in the whole microfinance sector.

- **Trust/ Distrust:** Over the counter activities and face to face contact always build up confidence. The basis of MFI is that it is founded on ethics and build on robust platform to serve the poor where the element of ‘human touch’ has maximum significance. As operations get digitalised this aspect is lost. Social belief, trust is an unaccounted basis of the MFI (Bergreen and Burzynska, 2014). Ray (2018) reported that networks built over trust are critical to the efficiency of firm’s operation. The Basel Committee on Bank Supervision (2016) also reinforces the concept of trust in Principle 25-Operational risk.
- **Facilitator role of supervisors avoided:** The field workers directly act to overcome clients reluctance to participate, bring a check on delinquency and help as an intermediary facilitator(Fisher and Sriram, 2002 and Sewaleand Ritchie, 2012)
 - High initial cost of infrastructure support and hence lack of investment.
 - Technology readiness and synergism for use
- **Risk:** The client’s perception of risk is an important aspect. Though cyber security rules are in force, hacking of accounts and theft cannot be overruled. Disruptions from inadequate security and stability are two aspects that need to be counterbalanced.
 - Capacity development particularly in the process of digitalisation and modernisation needs to be planned in advance and is indispensable part of the whole process.
 - Operational challenges in ICT- Digitalising transaction starts at the level of tech readiness and ends with acceptance and adoption by both MFIs and clients.
 - Lack of vision, clarity or awareness for clients to switch on from liquid cash to digital.
 - Confusions and competitions created by Digital financial services and the growing number of regulatory changes
 - Broadly the regulations have to apply differently to the two types of MFIs; the one that takes deposits and the other that do not accept deposits the former not requiring any form of prudential regulation but both requiring complete transparency.
 - Weak consumer protection and redressal of complaints.
 - Online redressal of complaints and immediate answers to queries is an issue that needs to be given utmost priority.

The purpose, type of regulation and the proposed interventions required are presented in a tabulated form below;

Table 1: The functional model of regulation in Microfinance

Sl. No.	Purpose	Rationale/Reason	Type of Regulation	Regulatory Interventions Required
1	Protection of borrowers	To protect from market factors like market process, pricing, volatility.	Business conduct rules and regulation	Fair practices rules and regulation, Micro finance schemes and policies. Investing temporary and providing.
2	Protection of depositors	Though small the clients are products as they are recourse poor and have to say or control on MFIs	Prudential regulation	Provisions for credit, profession of liquidity, enforcing governance and management standards
3	Protection from associated risks	a) External Risks – like drought, floods, pandemics b) Systemic risks	Pre- planned preparations and No additional regulation Systemic Regulation	Fit and proper practices Do's and Don'ts and adoption of fair practices. Regulated and procedures lending, adopting regulations in accepting deposits, strict monitoring and financial discipline
4	Protection of the Financial System	Awareness and perception of the clients	Prudential regulation	Improving financial literary. Adoption of well laid out practices such as BASEL Committee principles – Auditing, Reporting and Transparency.
5	Protection of MFI	To reach the poor and financially impoverished. Building trust and confidence	Both self and prudential regulations	Promotional strategies like formation of SHG / JLG's Handholding and capacity building measures as provided in Basal core principles. Regulations required
6	Protection of Public funds	To protect the capital base and Asset base of MFI and to enable more information of public funds.	Enabling Regulation and Non prudential regulation	Enforcing strict financial discipline monitoring, Auditing, Reporting and transparency is required.
7	Protection of growth access and sustainability	Reducing all costs, reducing nonperformance loss cutting down expenses.	Enabling Regulation	Recovering all farms of barriers and enabling easy access to both all clients.
8	Enhancing efficiency of management, Governance and Financial discipline	Reducing non- performing loans, Reducing unwanted overheads, cost cutting exercises and improving profitability	Enabling Regulation through Digitalisation on all fronts	A new regulatory provision for Digitalisation with directive principles starting from Licensing to the final steps of Auditing and reporting ensuring total transparency.

2. Setting Regulations Standards At Global, National And Regional Level

Regulatory and supervisory protocols and statutory procedures were mostly done at the national level but with the growth of microfinance crossing geographic boundaries and cross border funding involving foreign currency a paradigm shift has become imperative. Further, some of the websites also reveal a peer to peer cross border micro-lending. Another point of concern and a big challenge is that regulation and enforcement cannot be seen in isolation but are two sides of the same coin. A third aspect is the conversion of foreign currency (CGAP, 2010 and Kline and Sandhu, 2015). All this can be and is possible at one stroke only if fair practices are promulgated at global level and the rules of the game framed are on a level playing ground. Schwarcz (2011) has also opined that legal framework also needs immediate attention.

At the global level the World Bank particularly through its arm the Consultative Group to Assist the Poor (CGAP) launched in 1995. The CGAP on its own is now reviewing the MFI sector based on the contemporary issues such as the notes published by them in the face of COVID-19 (CGAP, 2020a; 2020b; 2020c, 2021a, 2021b) with a number of governments making financial inclusion a top policy priority, the Government Policy for Financial Inclusion (GPMI) came into existence in the G20 Seoul Summit in 2010 as a mechanism for financial inclusion Action Plan and a platform for peer learning knowledge sharing, policy advocacy and coordination among G20 policy makers (GPMI, 2011). In addition to the Basel committee on Banking Standards (BCBS) other bodies engaged with GPMI include the Committee on Payment and Market Infrastructures (CAMI) the Financial Action Task force (FATF), the financial stability Board, (FSB), the International Association of Deposit Insurers, the International Association of Insurance Supervisors and the International Organisation of Security commissions (GPMI, 2016). The Basel Committee initially was established by the central bank governors of group of ten countries in 1974.

Due to disturbances in international currency and banking markets particularly the failure of Bankhaus Herstatt in Germany, the committee headquartered at the bank for International settlements in Basel Expanded from G10 to 45 institutions and is now known for series of standards for bank regulation particularly with reference to capital adequacy ratio known as Basel I (1988), Basel II 2004, Basel III (2010). The Basel III post crisis reforms were completed in 2017 with publication of new standards for calculation of capital requirements for credit risks, credit evaluation adjustment risk and operational risk. The final reforms provide a regulatory foundation for a resilient banking system including the microfinance sector. It also set in motion the 2006 core principles on banking which was later revised in 2012 with a major revision focused on bank risk management. The BCBS came up with 29 core principles and later in 2016 came up with a sleuth of guidance measures for 19 of the 29 core principles in their application to regulation and supervision of the financial institutions engaged in reaching the financially unnerved and undeserved.

Meanwhile IMF continued its active role and presence by rolling out working paper on particular aspects within the broad realm of Microfinance and public policy. A series of discussion have also been initiated and documented thereafter following the horror set off by the COVID-19 pandemic. Recent meetings the 21st International conference of Banking Supervisors was focused on digitalisation of finance and evolution of banking models (BCBS, 2020) and very recently on the changing role of a banking supervisors (Rogers, 2021

Each of the core Principle is important and starts with Principle1- Responsibilities objectives and powers. A key component is the use of technology to assist supervisors and financial institutions in gathering transmitting and processing data and information. The principle 15 on Risk Management process, 16 on Capital adequacy, 17 on Credit risk, 18 on Problem assets, provisions and reserves, 24 on Liquidity risks, 25 on Operationalised risk, 28 on Transparency and 29 dealing with Abuses of financial services that includes among other things supervision of banks, anti-money laundering/ compacting the financing of terrorism(AML/CFT) controls which are all basically oriented on regulations of these aspects in a technology driven and governed environment.

At each country level there is yet another regulator which works on country specific issues and regulations. The broad parameters of regulations are thus under such banks which act as the regulator like the Reserve Bank of India, the Nepal Rastra Bank, the Bank of Ethiopia, Bank of Zambia etc. The state versus the central regulatory jurisdictions is a third tier of operation because there is no much clarity regarding central and state regulatory jurisdiction. A typical example in this direction is that during the 2010 and 2011 Andhra Pradesh and Gujarat states in India passed legislations barring specific practices within the state (Kline and Sandhu, 2015).

Thus, there are three tiers of operation one at the global level, the national level and yet another at the state level, stability and confidence level will elude this sector unless and until such regulatory ambiguity is resolved.

VIII. GAPS IN REGULATION

1. The gaps on the regulation front look like that all the work till now are on the regulation policy beginning from the licensing and on aspects like risks, indebtedness, multiple lending, repayment delinquency, auditing, transparency, reporting but the missing link is on regulations in digitalisation of microfinance which is wanting. Within this there are again grey areas to be defined where regulation is required.
2. Haves and Have not's- Small MFIs and the not-for-profit MFIs do not generate income to build a strong robust infrastructure that is finally computerised. Hence regulations should primarily ensure where it should be ICT enabled. If governments want all the MFIs to be ICT enabled the small MFIs have to be necessarily supported by the respective governments of countries.
3. Categorisation of MFIs to be regulated- It has to be made mandatory by statutory provisions of volume of business, clientele base and audited balance sheet. Such MFIs with a turnover above a threshold value need to be necessarily computerised.
4. Regulation on auditing on monthly basis- Digitalisation opens out a new way for protection of borrowers, depositors and MFI. A provision for concurrent auditing as in Banks has to be made mandatory for large MFIs
5. Sandwich model of provisions for regulation of digitalisation- Removing the supervisors who act as the middle level persons who connect the beneficiaries/clients to the MFIs may not be a totally viable proposal but increasing the number of clients per supervisor will be more suitable as it serves both the advantages. A Second aspect is that MFI clients are both educationally and financially illiterate and needs either full support or handholding to rise up to the level of digitalisation

6. Regulatory provision ensuring privacy of Accounts in the face of digitalisation- Regulations should ensure the privacy of the accounts and should not add to reputational risks both for the client and MFI.
7. Regulatory frame for risk elimination and digitalisation- Cyber security laws and provisions for computerisation has to be made in case of hacking of accounts or false withdrawals. Avoiding operational risks and compensation of loss will also have to find a place in the provisions.
8. Regulatory provision for effective controls on digitalised Accounting- The tech readiness and facilitating conditions need to be geared that accounting is totally digitalised, ensures ease of operation and clients have a feedback with a click.
9. Digitalisation leading to total transparency- Regulatory provisions of digitalisation should lead to total transparency in all sets of processes, procedures, governance and management.
10. Regulatory provisions for Enabling/ Empowerment- Provisions for empowerment of both the staffs and clients aimed towards a fully digitalised environment should be aim and regulatory provision made to ensure the same and finally.
11. Provisions for digitalised redressal of grievances/ anomalies/ Claims- The health of financial institutions lies in addressing all the problems/ anomalies. This has to be ensured by regulatory provisions for having it inbuilt in the system.
12. Enforcement of regulatory provisions is another area that has to have a fresh look. Laws on enforcement as well as deviations from accepted practices have to be made a punishable offence

IX. THE GAME CHANGE REQUIRED ON A LEVEL PLAYING GROUND

The level playing ground has to be established for which ensuring the establishment of an account for each client has to be declared as a fundamental right. Thus a transaction account in any MFI is the first step toward broader financial inclusion that will facilitate people to store money, and send and receive payments. This will open out the door to broader investment and business, besides serving as a gateway to other financial services. The nodal regulating banks of all countries and World Bank have at its heart to promote individual transaction accounts and this still continues to be an area of focus for the World Bank Group (WBG).

Even after sustained efforts by Governments and various institutions under the comity of nations, this is recognised as a distant dream as banking institutions are unreachable in the developing and underdeveloped nations and more so in the latter. The data presented below in table 2 gives a basic idea of the trends in account ownership and the qualitative shifts towards digitalised use

Table 2: Data on Account Ownership

Yardstick	Global		Developing Countries	
	2021	Decade/Year Back	2021	Decade/Year back
Account Ownership (%)	76	51	71	42
Unbanked Number	1.4 Billion	1.7 billion (2017)	-	-

Digital Payment (Adults)	69%	-	57% (2021)	35% (2014)
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Global Findex Database, - indicate Data not Available,

An estimated 2 billion adults lacked an account in 2014 (Global Findex, 2014). The World Bank set an ambitious target to achieve universal financial access by 2020. Though it is boasted that as of 2017, 69% of the world's adults had an account, the actual number with no account was nearly around 1.7 billion. The latest figures reveal that it is close to 1.4 billion adults in 2021 that remain unbanked (Pesme, 2022). This improvement is slow by all means but most importantly the unreached set are the people hardest to reach – and more commonly women, poorer, less educated, and those living in rural areas

Financial inclusion is the cornerstone of development and the goal of financial inclusion is to have access to useful, affordable financial products and services to meet the needs of the account owners and delivered in a responsible and sustainable way. This aspect has been emphasised at various levels and in different world bodies. The game change to financial inclusion thus will only come through digitalisation and is proven aspect as

- Seven of the seventeen Sustainable Development Goals have at its base the concept of Financial Inclusion as an enabler.
- The G20 group of nations is committed to this task and is committed to the advancement of the Principles of Digital Financial Inclusion worldwide
- Financial inclusion is considered as the key enabler by the World Bank Group to reduce extreme poverty and boost shared prosperity.

A critical analysis of the data presented in Table-3 reveal that the operation expense in MFI is a cause of concern and as the outreach increases it is bound to increase further.

Table 3: MFIs average performance ratios in 2017 (consolidated)

Subject	Percentage
Portfolio Yield	19.2%
Operating Expense Ratio	10.6%
Portfolio at Risk 30 days	6%
Return on Equity	11.5%

Source: Microfinance Barometer -2019

The study published by the Microfinance Barometer 2019 also revealed that in 2018, 139.9 million borrowers benefited from the services of MFIs, compared to just 98 million in 2009. Of these borrowers, 80% are women and 65% are rural borrowers, proportions that have remained stable over the past ten years, despite the increase in the number of borrowers. This speaks not only of the volume of business but most importantly the large clientele base formed by mostly people at the bottom of the pyramid.

The game change in financial inclusion will come only through digitalisation. Moving from access to usage of accounts is the next step for countries where 80% or more of the population have accounts (China, Kenya, India, and Thailand). And necessitates much quicker, less cumbersome and ease of account maintenance. These countries relied on reforms, private sector innovation, and a push to open low-cost accounts, including mobile and digitally-enabled payments.

Digital financial inclusion has also to have a human face to devise cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers. COVID-19 crisis has also reinforced the need for increased digital financial inclusion (Malpass, 2022).

X. CONCLUSION

The meaning of the word microfinance is a typical example of oxymoron implying that it is required to be regulated. The evolution of the conservative micro lending or microcredit is enshrined on social ethics and towards social entrepreneurship to its present stage reveals that it has come of age but has transformed to one with many faces. Initially it did not involve savings at all and this is referred to as “walking on one leg “since without savings microfinance is not microfinance at all but microcredit. This was based on a misconception that the poor are too poor to save and that they need credit not saving. This transformation paved the way for growth of the sector as well as associated problems and then came the need for norms or standards leading to the Basel standards. Rogers (2021b) has likened the Basel standards to a “two-legged football game” the first game played at Basel and the second ‘home game’ taking place at the country level where the banking institutions seek to renegotiate the global agreement. The present scenario can be compared to a “three legged race “with one leg representing the standards prescribed by the global bodies, the two joined legs representing the global institutions and the regulator at the country level in partnership and the other individual third leg symbolising the regulator at each country level but both individuals or entities in the three legged race running with the ultimate objective of having mutually acceptable legitimate regulatory standards in place. A three pronged strategy to achieve digital transformation spelt out by Malpass (2020) the World Bank president include: Creating an enabling policy environment, Promoting digitalisation of payments and Emphasizing access for women and the poor which is definitely the way forward.

There are optimistic and pessimistic views raised on the need of regulations on digitalisation in microfinance but the ground reality is a large picture of the great digital divide in the finance sector .Though the IMF reports (IMF 2002), the World Bank (World Bank, 2015) the Basel standards , the UNCITRAL laws (UNCITRAL, 2021) and governments through its regulators speak from the heart on regulations and point to the need of digitalisation principles, there is only a humble beginning but no real attempt on regulatory principles on digitalisation of microfinance and that is the biggest challenge to regulatory intentions on digitalisation of microfinance . It’s probably an innate character of being cautious or extra cautions and lends credence to oft quoted words of the first Prime Minister of India Jawaharlal Nehru. “Being too cautious in the biggest challenge to risk itself”.

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