

## **A tale of two sites in India: DhanaX and Rang De.**

### **Should online Micro-lending be for profit or for philanthropy?**

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#### *Abstract*

*Asian Finance is not just about the formal organized sector. It is also about the billions of small savers and small borrowers, often known as microfinance. Today, technology is building the bridge between the organized formal finance sectors and the informal poor borrowers. Two major technologies are online lending and mobile banking. This paper focuses on online lending in India and uses this setting to explore ethical issues in governance, pricing and marketing. Two case studies are used: a for-profit company and a not-for-profit.*

*Keywords: microfinance, online lending, ethics, governance*

*In early 2008, two sites went online. One was Rang De and the other was DhanaX. One started in January and the other in February. Both were based in South India. One started in Tamil Nadu (Chennai based) and the other started in Karnataka (Bangalore based). Both were initiated by youngsters. The co-founders of Rang De, Smita Ramakrishan and NK Ramakrishna (a wife and husband team), were in their early thirties and co-founders of DhanaX, Siva Cotipalli and Prashant Mishra, were in their late twenties. Both were in the business of online micro-lending, seeking to link small lenders with poor borrowers.*

*The major difference was that Rang De is a not-for-profit trust. DhanaX is a for-profit company.*

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#### **Introduction to Microfinance**

The microfinance movement has been an outgrowth of the cooperative banking movement started in the 19<sup>th</sup> century in Germany. The methods of using group savings for lending and making clients the shareholders have been used for well over a century in Western Europe. Some leading French banks such as Credit Agricole, Caisse d'Epargne and Banque Populaire were structured according to this mutual aid model.

Since the 1970s, some of these methods have been brought to developing countries for lending to the poor, notably in Bolivia, Brazil and Bangladesh with interesting twists. One notable incentive scheme is the group lending scheme. In these group-lending schemes, the group stands as collateral for the borrower. There are many variants, with the Grameen bank model, the Self Help Group model, the village banking model, etc<sup>2</sup>.

The Microfinance market has been growing at an average rate of 30% per annum worldwide. Within India, the growth rates have been much higher as the movement has caught on in recent years. Thus, many MFIs are doubling

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<sup>2</sup> See Armendariz & Morduch (2005): The Economics of Microfinance, MIT Press.