Certificate Examination in

Micro finance

(IIBF & Other Exams)
2019

Compiled by

Srinivas Kante B.Tech, CAIIB

About Certificate Examination in Microfinance

Rules & Syllabus 2018

OBJECTIVE
To provide a thorough knowledge of the concept of microfinance and how microfinance institutions work, including the operational aspects of an SHG / MFI. The course will be a mixture of theory and case studies. This course would go a long way in building up the financial literacy of the persons involved in microfinance and SME sector. As the RBI and the Government have given a new thrust to financial inclusion and financial literacy, the examination would be helpful to banks also in their quest to reach excluded sections of the population.

ELIGIBILITY
1. Members and Non-Members of the Institute
2. Candidates must have passed the 12th standard examination in any discipline or its equivalent.

SUBJECT OF EXAMINATION
Microfinance

PASSING CRITERIA
Minimum marks for pass in the subject is 50 out of 100.

EXAMINATION FEES* : Particulars	**For Members**	**For Non-Members**
First attempt	Rs.1,000/- *	Rs.1,500/- *
Subsequent each attempt	Rs.1,000/- *	Rs.1,500/- *

** Plus Convenience charges and Taxes as applicable.*
Please Note : Candidates are required to Register for every attempt separately.
As a measure to streamline the traffic for registration, Institute will charge regular examination fee to candidates who registers for the examination during the regular open period of registration. **For the extended days of registration, late fee of** Rs.**200 plus taxes, will be charged in addition to regular examination fee.** This extended days of registration, also gives candidates addition opportunity to register for the examination, having missed the regular open period of registration.
The fee once paid will **NOT** be refunded or adjusted on any account.

MEDIUM OF EXAMINATION
Examination will be conducted in English only.

PATTERN OF EXAMINATION:
(i) Question Paper will contain 120 objective type multiple choice questions for 100 marks.

(ii) The examination will be held in Online Mode only

(iii) There will NOT be negative marking for wrong answers.

DURATION OF EXAMINATION
The duration of the examination will be of 2 hours.

PERIODICITY AND EXAMINATION CENTRES:
a) Examination will be conducted on pre-announced dates published on IIBF Web Site. Institute conducts examination on half yearly basis, however periodicity of the examination may be changed depending upon the requirement of banking industry.

b) List of Examination centers will be available on the website. (Institute will conduct examination in those centers where there are 20 or more candidates.)

PROCEDURE FOR APPLYING FOR EXAMINATION
Application for examination should be registered online from the Institute's website www.iibf.org.in. The schedule of examination and dates for registration will be published on IIBF website.

PROOF OF IDENTITY

Non-members applying for Institute's examinations / courses are required to attach / submit a copy of any one of the following documents containing Name, Photo and Signature at the time of registration of Examination Application. Application without the same shall be liable to be rejected.

1) Photo I / Card issued by Employer or 2) PAN Card or 3) Driving Licencse or
4) Election Voter's I / Card or 5) Passport 6) Aadhaar Card

STUDY MATERIAL / COURSEWARE

The Institute has developed a courseware to cover the syllabus. The courseware (book) for the subject/s will be available at outlets of publisher/s. Please visit IIBF website www.iibf.org.in under the menu "Exam Related" for details of book/s and address of publisher/s outlets. Candidates are advised to make full use of the courseware. However, as banking and finance fields are dynamic, rules and regulations witness rapid changes. Therefore, the courseware should not be considered as the only source of information while preparing for the examinations. Candidates are advised to go through the updates put on the IIBF website from time to time and go through Master Circulars / Master Directions issued by RBI and publications of IIBF like IIBF Vision, Bank Quest, etc. All these sources are important from the examination point of view. Candidates are also to visit the websites of organizations like RBI, SEBI, BIS, IRDAI, FEDAI etc. besides going through other books & publications covering the subject/exam concerned etc. Questions based on current developments relating to the subject/exam may also be asked.

Cut-off Date of Guidelines / Important Developments for Examinations

The Institute has a practice of asking questions in each exam about the recent developments / guidelines issued by the regulator(s) in order to test if the candidates keep themselves abreast of the current developments. However, there could be changes in the developments / guidelines from the date the question papers are prepared and the dates of the actual examinations.

In order to address these issues effectively, it has been decided that:

(i) In respect of the examinations to be conducted by the Institute for the period February to July of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December will only be considered for the purpose of inclusion in the question papers".

(ii) In respect of the examinations to be conducted by the Institute for the period August to January of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June will only be considered for the purpose of inclusion in the question papers.

The table given below further clarifies the situation.

Particulars	**Cut-off Date of Guidelines / Important Developments for Examination/s**
Developments for Examination/s	
For the examinations to be conducted by the Institute for the period February 2018 to July 2018	31st December 2017
For the examinations to be conducted by the Institute for the period August 2018 to January 2019	30th June 2018

SYLLABUS

Microfinance

1. Why Microfinance?

2. What is Microfinance?

3. Microfinance as a Development Tool : The Indian Experience

4. Evolution and Character of Microfinance in India

5. Microfinance Delivery Methodologies

6. Legal and Regulatory Framework

7. Some Innovative and Creative Microfinance Models

8. Impact of Microfinance

9. Financial Products and Services

10. Revenue Models of Microfinance : Profitability, Efficiency and Productivity

11. Emerging issues

12. Risk Management

13. Basics of Banking

MICRO FINANCE

Microfinance is the provision of financial services to low-income people. It refers to a movement that envisions a world where low-income households have permanent access to high-quality and affordable financial services to finance income-producing activities, build assets, stabilize consumption, and protect against risks. Initially the term was closely associated with microcredit—very small loans to unsalaried borrowers with little or no collateral—but the term has since evolved to include a range of financial products, such as savings, insurance, payments, and remittances.

Microfinance institutions and other financial service providers have worked over the past decades to develop products and delivery methods to meet the diverse financial needs of low-income people. For example, unlike other forms of lending, microcredit loans use methodologies such as group lending and liability, pre-loan savings requirements, and the gradually increase in loan sizes to evaluate clients' credit worthiness. Microfinance providers today continue to improve their understanding of the financial needs of their target clients and tailor their products and methodologies accordingly.

Financial inclusion

The goal of financial inclusion is to develop financial markets that responsibly serve more people with more products at lower cost. Financially inclusive markets comprise a broad, interconnected ecosystem of market actors and infrastructure delivering financial products safely and efficiently to low-income customers. These market actors may include banks, financial cooperatives, e-money issuers, payment networks, agent networks, insurance providers, microfinance institutions, and more.

Financial inclusion efforts today build upon the work of microfinance providers over the last several decades. What began as the provision of loans to poor people for the purpose of building microenterprises has evolved into a global effort to provide poor people with access to a range of financial products and services. Research and experience demonstrate that, in addition to using credit, low-income people save, make payments, use insurance, and make use of a variety of other tools to manage their complex financial lives. Financial inclusion efforts seek to make these and other products available to everyone in a safe, cost effective, and convenient manner.

Kinds of institutions deliver financial services to poor clients

Poor people need many kinds of financial products and services and there is a growing range of organizations working to reach them with savings, insurance, transfers, and credit services.

In addition to traditional operators, such as microfinance institutions, credit unions, cooperatives, and banks, other entities, including mobile network operators, are using technology to develop new delivery methods to bring these services to the poor, sometimes in partnership with existing financial institutions

MICRO FINANCE – CURRENT STATUS AND GROWING CONCERNS IN INDIA

.

Microfinance sector has grown rapidly over the past few decades. Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in 1976. Today it has evolved into a vibrant industry exhibiting a variety of business models. Microfinance Institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs. Banks have also leveraged the Self-Help Group (SHGs) channel to provide direct credit to group borrowers.

With financial inclusion emerging as a major policy objective in the country, Microfinance has occupied centre stage as a promising conduit for extending financial services to unbanked sections of population. At the same time, practices followed by certain lenders have subjected the sector to greater scrutiny and need for stricter regulation.

This report, which contains only a part of the actual report is based on the research work done as a part of the summer internship project at Reserve Bank of India, Kanpur. The research involved study of the past literatures about the microfinance sector, related online research papers and journals. The study also involved survey of all MFIs in the state of Uttar Pradesh through field visits and online survey. The annual reports and the sector reports published by regulatory bodies, MFI associations and major microfinance players facilitated the study, especially in understanding the size, growth and past trends. Interactions with some of the industry experts helped in understanding and analysing the emerging concerns in the microfinance sector and also to look for some possible solutions.

Although the microfinance sector is having a healthy growth rate, there have been a number of concerns related to the sector, like grey areas in regulation, transparent pricing, low financial literacy etc. In addition to these concerns there are a few emerging concerns like cluster formation, insufficient funds, multiple lending and over-indebtedness which are arising because of the increasing competition among the MFIs. On a national level there has been a spate of actions taken to strengthen the regulation of MF sector including, enactment of microfinance regulation bill by the Government of Andhra Pradesh, implementation of sector-specific regulation by Reserve Bank of India and most recently, release of Draft Microfinance Institutions (development and regulation) Bill, 2011 for comments.

Based on the research work, a few major recommendations made in the report include field supervision of MFIs to check ground realities and the operational efficiency of such institutions. Offer incentives to MFIs for opening branches in unbanked villages, so as to increase rural penetration. Also MFIs be encouraged to offer complete range of products to their clients. Transparent pricing and technology implementation to maintain uniformity and efficiency are among the others which these institutions should adopt. Inability of MFIs in getting sufficient funds is a major hindrance in the microfinance growth and so these institutions should look for alternative sources of funds. Some of the alternative fund sources include outside equity investment, portfolio buyouts and securitization of loans which only a few large MFIs are currently availing.

Introduction to Microfinance

“Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.”

Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling etc.

Salient features of Microfinance:

Borrowers are from the low income group

Loans are of small amount – micro loans

Short duration loans

Loans are offered without collaterals

High frequency of repayment

Loans are generally taken for income generation purpose

Gaps in Financial system and Need for Microfinance

According to the latest research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase their income and hence the standard of living.

About half of the Indian population still doesn't have a savings bank account and they are deprived of all banking services. Poor also need financial services to fulfill their needs like consumption, building of assets and protection against risk. Microfinance institutions serve as a supplement to banks and in some sense a better one too. These institutions not only offer micro credit but they also provide other financial services like savings, insurance, remittance and non-financial services like individual counselling, training and support to start own business and the most importantly in a convenient way. The borrower receives all these services at her/his door step and in most cases with a repayment schedule of borrower's convenience. But all this comes at a cost and the interest rates charged by these institutions are higher than commercial banks and vary widely from 10 to 30 percent. Some claim that the interest rates charged by some of these institutions are very high while others feel that considering the cost of capital and the cost incurred in giving the service, the high interest rates are justified

Channels of Micro finance

In India microfinance operates through two channels:

1. SHG – Bank Linkage Programme (SBLP)

2. Micro Finance Institutions (MFIs)

SHG – Bank Linkage Programme

This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs

SHG model – How it works

and institutions like NABARD and SIDBI.

Micro Finance Institutions

Those institutions which have microfinance as their main operation are known as micro finance institutions. A number of organizations with varied size and legal forms offer microfinance service. These institutions lend through the concept of Joint Liability Group (JLG). A JLG is an informal group comprising of 5 to 10 individual members who come together for the purpose of availing bank loans either individually or through the group mechanism against a mutual guarantee. The reason for existence of separate institutions i.e. MFIs for offering microfinance are as follows:

High transaction cost – generally micro credits fall below the break-even point of providing loans by banks

Absence of collaterals – the poor usually are not in a state to offer collaterals to secure the credit

Loans are generally taken for very short duration periods

Higher frequency of repayment of installments and higher rate of Default

Non-Banking Financial Companies (NBFCs), Co-operative societies, Section-25 companies, Societies and Trusts, all such institutions operating in microfinance sector constitute MFIs and together they account for about 42 percent of the microfinance sector in terms of loan portfolio. The MFI channel is dominated by NBFCs which cover more than 80 percent of the total loan portfolio through the MFI channel.

Sl. No.	**Type of MFI**	**Number**	**Legal Registration**	Source:
Not-for Profit MFIs				NABAR
1	NGOs	400-500	Society Registration Act, 1860 Indian Trust Act, 1882	D
2	Non-Profit companies	20	Section-25 of Indian Companies Act, 1956	ISSUES
Mutual Benefit MFIs				
3	Mutual benefit MFIs – Mutually Aided Cooperative Societies (MACS)	200-250	Mutually Aided Co-operative societies, Act enacted by State Governments	RELATE D TO
For Profit MFIs				
4	Non-Banking Financial Companies (NBFCs)	45	Indian companies Act, 1956 Reserve Bank of India Act, 1934	MICROF INANCE

Legal structure and regulation

Although the SHG-Bank linkage model is well managed in India by NABARD, currently there is no proper regulatory body for the supervision of MFIs. The presence of institutions with a variety of legal forms makes it difficult for the regulation of all such institutions by a single regulatory body in the current Indian legal structure. Though NBFCs, which cover the major part of the outstanding loan portfolio by the microfinance channel, are regulated by Reserve Bank of India, other MFIs like societies, trusts, Section-25 companies and cooperative societies fall outside the purview of RBI's regulation. The acceptance of the Malegam committee recommendations by the RBI is a big step forward in addressing the above concern but again it will cover only a section of the MFIs i.e. NBFCs. The microfinance bill which was introduced in the year 2007 is still pending. The most recent and the strongest step taken by the government, The Micro Finance Institutions (Development and regulation) Bill, 2011 is a major step in the microfinance sector. The proposed bill clarifies all doubts pertaining to regulation of the MFIs by appointing RBI as the sole regulator for all MFIs.

Financial illiteracy

One of the major hindrances in the growth of the microfinance sector is the financial illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients. Though most of the microfinance institutions claim to have educational trainings and programmes for the benefit of the people, according to some of the experts the first thing these SHG and JLG members are taught is to do their own signature. The worst part is that many MFIs think that this is what financial literacy means. We all know how dangerous it can be when one doesn't know how to read but he/she knows how to accept or approve it (by signing it).

Inability to generate sufficient funds

Inability of MFIs to raise sufficient fund remains one of the important concern in the microfinance sector. Though NBFCs are able to raise funds through private equity investments because of the for-profit motive, such MFIs are restricted from taking public deposits. Not-for-profit companies which constitute a major chunk of the MFI sector have to primarily rely on donations and grants from Government and apex institutions like NABARD and SIDBI. In absence of adequate funding from the equity market, the major source of funds for MFIs are the bank loans, which is the reason for high Debt to Equity ratio of most MFIs.

MFIs receive debt from banks against their equity and in order to increase their portfolio size they need to increase their debts for which they further need to increase their equity. After the Andhra crisis, it is reported that banks have stopped issuing fresh loans and even though currently few banks have resumed, they want MFIs to increase their equity to get fresh loans. So the only mode for the MFIs to increase their portfolio size is to increase their equity. The problem of inadequate funds is even bigger for small and nascent MFIs as they find it very difficult to get bank loans because of their small portfolio size and so they have to look for other costlier sources of fund.

Dropouts and Migration of group members

Majority of the microfinance loans are disbursed on group lending concept and a past record of the group plays an important role in getting new loans either through SHG-Bank linkage or through MFIs. The two major problems with the group concept are dropouts (when one or more members leave the group) and migration (when one or more members move to another group). Most MFIs lend on the basis of the past record of the group i.e. SHG or JLG and also on the individuals repayment performance. In absence of a decent past record, members are deprived of getting bigger loan amounts and additional services.

Transparent Pricing

Though the concern about the transparent pricing in the microfinance sector has been an older one, it is gaining significance with the growing size and the increasing competition in the sector. Non-transparent pricing by MFIs confines the bargaining power of the borrowers and their ability to compare different loan products, because they don't know the actual price. In absence of the proper understanding of the pricing, clients end up borrowing more than their ability to payback which results in over-indebtedness of the borrower.

MFIs, in order to make their products look less expensive and more attractive, are disguising their actual/effective interest rates (better known as the Annualized Percentage Rates – APR) by including other charges like service charge, processing fee etc. Some MFIs even take interest free deposits for lending microloans. There have been cases where the interest rates are linked with the loan amount, which means a higher interest rate for smaller loans (because of higher transaction cost). This is resulting in highest interest rate being charged to the poorest clients, which contradicts with the social aspect of microfinance.

Ambiguity in the pricing by MFIs is inviting regulatory bodies to implement strict measures like interest rate caps. But simply putting an interest rate cap may encourage MFIs to look for clients with larger loan requirements. This may deprive the clients with smaller loan requirements who are supposed to be the actual beneficiary of microfinance.

Cluster formation – fight to grab established market

MFIs' drive to grab an established market and reduce their costs is resulting in formation of clusters in some areas leaving the others out of the microfinance outreach. By getting an established microfinance market, MFIs reduce their initial cost in group formation of clients, educating them and creating awareness about microfinance. This is one of the reasons for the dominance of the microfinance sector in the southern states. Now the problem is that a similar trend is being followed in the northern states as well. We have already seen what happened in A.P and it seems that most of the MFIs have not taken a lesson from the Andhra crisis.

This cluster formation is restricting MFIs from reaching to rural areas where there is the actual need for microfinance. People in urban and semi-urban areas are already having access to microfinance through SHG-bank linkage or individual lending, but in rural areas people don't have access to banks and so SBLP is not much active in such areas. Because of the initial cost involved in serving a new location, MFIs are not willing to go to such remote locations. This is the reason most of the MFIs have their branches in urban and semi-urban areas only resulting in a very low rural penetration of microfinance.

It is high time for the MFIs to understand that though microfinance is a resalable product, increasing the outreach of the microfinance sector by including new clients and serving new locations is what which is needed the most at the moment.

Multiple Lending and Over-Indebtedness

Both of these are outcome of the competition among the MFIs. Microfinance is one such sector where the Neo-liberal theory of free market operation fails, at least to some extent. Though competition is good for many sectors but in this case it is going against both the parties. In order to eat away each others' market share, MFIs are ending up giving multiple loans to same borrowers which in some cases is leading to over-indebtedness (a situation where the borrower has taken loans more than her/his repaying capacity) of the borrower. MFIs are getting affected because borrowers are failing to make payments and hence their recovery rates are falling, while over-indebtedness is making the borrower go to depression and in some cases forcing them to commit suicide.

Some experts advocate that multiple lending is not but over-indebtedness is dangerous. This may be true but multiple lending is eating away the opportunity of new borrowers, and in a country where it is believed that the microfinance sector is able to cater to only 10-15 percent of its potential clients, even multiple lending proves out to be a big concern.

Recommendations

1. Proper Regulation: The regulation was not a major concern when the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models. However, as the sector completes almost two decades of age with a high growth trajectory, an enabling regulatory environment that protects interest of stakeholders as well as promotes growth, is needed.

2**. Field Supervision:** In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed. This will keep a check on the performance of ground staff of various MFIs and their recovery practices. This will also encourage

MFIs to abide by proper code of conduct and work more efficiently. However, the problem of feasibility and cost involved in physical monitoring of this vast sector remains an issue in this regard.

3. **Encourage rural penetration**: It has been seen that in lieu of reducing the initial cost, MFIs are opening their branches in places which already have a few MFIs operating. Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending. This will also increase rural penetration of microfinance in the state.

4. **Complete range of Products:** MFIs should provide complete range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFIs are acting as a substitute to banks in areas where people don't have access to banks, providing a complete range of products will enable the poor to avail all services.

5. **Transparency of Interest rates**: As it has been observed that, MFIs are employing different patterns of charging interest rates and a few are also charging additional charges and interest free deposits (a part of the loan amount is kept as deposit on which no interest is paid). All this make the pricing very confusing and hence the borrower feels incompetent in terms of bargaining power. So a common practice for charging interest should be followed by all MFIs so that it makes the sector more competitive and the beneficiary gets the freedom to compare different financial products before buying.

6. **Technology to reduce Operating Cost**: MFIs should use new technologies and IT tools & applications to reduce their operating costs. Though most NBFCs are adopting such cost cutting measures, which is clearly evident from the low cost per unit money lent (9%-10%) of such institutions. NGOs and Section 25 companies are having a very high value of cost per unit money lent i.e. 15-35 percent and hence such institutions should be encouraged to adopt cost-cutting measures to reduce their operating costs. Also initiatives like development of common MIS and other software for all MFIs can be taken to make the operation more transparent and efficient.

7. **Alternative sources of Fund:** In absence of adequate funds the growth and the reach of MFIs become restricted and to overcome this problem MFIs should look for other sources for funding their loan portfolio. Some of the ways through which MFIs can raise their fund are:

By getting converted to for-profit company i.e. NBFC: Without investment by outside investors, MFIs are limited to what they can borrow to a multiple of total profits and equity investment. To increase their borrowings further, MFIs need to raise their Equity through outside investors. The first and the most crucial step to receive equity investment are getting converted to for-profit NBFC. Along with the change in status the MFI should also develop strong board, a quality management information system (MIS) and obtain a credit rating to attract potential investors.

Portfolio Buyout: It is when banks or other institutions purchase the rights to future payment stream from a set of outstanding loans granted by MFIs. In such transactions MFIs are responsible for making up any loss in repayment up to a certain percentage of the portfolio and this clause is known as "first loss default guarantee". The above clause ensures that the MFI retains the correct incentive to collect these loans. To ensure security to the buying institution, MFIs are allowed to sell off as much of the outstanding portfolio as is financed by accumulated earnings or equity.

Securitization of Loans: This refers to a transaction in which the repayments from a set of microloans from one or more MFIs are packaged into a special purpose vehicle, from which tradable securities are issued. As the loans from multiple MFIs can be pooled together the risk gets diversified. Though securitization of loans and portfolio buyout are similar in many ways like first loss default guarantee clause, limit to the amount of loans that can be sold off etc. The major difference between the two is that securitizations require a rating from a credit rating agency and that it can be re-sold, which makes securitized loans attract more potential buyers. Also unlike portfolio buyout, there can be multiple buyers and sellers for each transaction in case of securitization of loans as compared to single buyer and single seller in portfolio buyout. Through securitization, MFIs can tap new sources of investments because fund of certain types like mutual funds, which are barred from directly investing in MFIs, can invest through securitized loans.

Microfinance plays an important role in the present Indian economy. Mainly, the poor or the underprivileged section of the society is getting immense benefits from the concept of microfinance. The organisations that lend this financial help to the under-banked section of the society are the Microfinance institutions. You can approach these institutions whenever you are in need of money as these organisations provide financial help to set up or establish a business on a smaller level.

Microfinance institutions not only give financial help to the poor section of the society but also educate them on how to utilise the offered fund in a better way. There are a number of such government and private financial institutions in India who are working closely to uplift the financial conditions of the poor section of Indian society. Various institutions have their own terms and conditions and based on that they provide money to the people who want to set up a new business or upgrade an existing one.

Prominent MFIs in India?

Following are some of the prominent financial institutions in India who are lending financial help to the economically-deprived segment of the society:

Bharat Financial Inclusion Limited

Spandana Sphoorty Financial Ltd

Share Microfin Limited

Asmitha Microfin Ltd

Shri Kshetra Dharmasthala Rural Development Project

Bhartiya Samruddhi Finance Limited (BSFL)

Bandhan Financial Services Pvt Ltd

Cashpor Micro Credit (CMC)

Grama Vidiyal Micro Finance Pvt Ltd (GVMFL)

Grameen Koota Financial Services Pvt Ltd (GFSPL)

Utkarsh Micro Finance Pvt Ltd

Ujjivan Financial Services Pvt Ltd

Swadhaar FinServe Pvt Ltd

Annapurna Microfinance Pvt Ltd

Arohan Financial Services Pvt Ltd

Asirvad Microfinance Pvt Ltd

BSS Microfinance Pvt Ltd

Disha Microfin Pvt Ltd

Equitas Microfinance Pvt Ltd

ESAF Microfinance and Investments Pvt Ltd

Fusion Microfinance Pvt Ltd

Janalakshmi Financial Services Pvt Ltd

Madura Micro Finance Ltd

RGVN (North East) Microfinance Limited

Satin Creditcare Network Ltd

S.M.I.L.E Microfinance Ltd

Sonata Finance Pvt Ltd

SV Creditline Pvt Ltd

Swadhaar FinServe Pvt Ltd

Suryoday Micro Finance Pvt Ltd

Adhikar Microfinance Pvt Ltd

Mahasemam Trust

Margdarshak Financial Services Ltd

Pahal Financial Services Pvt Ltd

Rashtriya Seva Samithi

Rashtriya Gramin Vikas Nidhi

Sahara Utsarga Welfare Society

Sahayog Microfinance Ltd

Saija Finance Pvt Ltd

Samhita Community Development Services

Sanghamitra Rural Financial Services

Sarala Women Welfare Society

Shikhar Microfinance Pvt Ltd

Uttrayan Financial Services Pvt Ltd

Vedika Credit Capital Ltd

Village Financial Services Pvt Ltd

YVU Financial Services Pvt Ltd

Hand in Hand (HIH)

RORES Micro Entrepreneur Development Trust(RMEDT)

How are MFI Institutions Changing the Lives of Poor in India?

Microfinance institutions are definitely changing the lives of the financially weak persons in the society. In India, a large skilled section was deprived of mainstream banking services for a very long time. Banks used to show very less or no interest to lend money to this economically backward populations due to the high-risk factor.

But, the scenario has changed now. These days, various financial institutions and government organisations are coming forward to lend a small amount of money to these people to assist them set up their own business. This small help is not only helping certain individuals in the society but also helping to bring down the unemployment percentage in India.

When a small business is started, it also widens the employment opportunity for others in the due process. To ensure that more people come into mainstream jobs or works, most of the microfinance organisations while providing the loans set criteria that the borrowers have to employ others like them when their business will be successful. In this way, each small step taken by these institutions help to counter the unemployment problem in India.

Now, as less-educated and illiterate persons are getting employment in small set up. it is helping them to be financially independent thus making their lives better. At present the unemployment situation in rural India is serious and the MFIs can play a big role to counter this problem effectively.

How MFIs Give Loan to the Borrowers?

Giving micro financial assistance to the poor sections of the society is a very complex matter. But the microfinance organisations do this task with perfection. The administrative officer has to visit the place, interview the borrowers and analyse their skill. This entire process takes time, energy and manpower. Most of the time the financial institutions arrange for all the necessary training to develop them into skilled labour. Some of the vital areas considered by MFIs before giving out loans are as follows:

Loan period- Sometimes a loan is given to the borrowers for short duration of time which might range from a few months to 1 year. The repayment of the loan is done on monthly, weekly or on daily basis.

Risk factor- The field officer has to conduct a detailed analysis of the repayment capability of the applicants before approving the loan. The repayment ability is assessed on the basis of various criteria and this task is conducted by the officer.

Education- The field officer also checks the education level of the borrower as to run a successful business education plays a vital role.

Specialised skill- The borrower should have a complete or a minimum knowledge of the business. MFI expect the borrower to have substantial knowledge of the business he/she is going to pursue.

Agreement- There will be an agreement between the borrower and the institution providing the loan. The agreement will include repayment procedure and allocation of funds. Both parties have to agree and then the final allocation of funds will take place.

How are MFIs Helping People to Save for Future?

Microfinance institutions apart from lending money also work closely to educate people about the ways of saving their hard-earned money. When an individual or group of people take loan MFI officials ask them to save a small amount from their income for serving their future needs. Hence, every month or week they contribute a reasonable money to a common fund. This fund is further invested in various policies to give the maximum profit to the borrowers. From this fund, borrowers can take out a small amount for meeting their urgent needs like paying school fees of their children or repairing their houses.

In this way, when people understand the benefit of saving and get to know the ways to invest their money profitably, it helps them to secure their future. The contribution given by each member is just a few rupees and the lion's share of their income is given to them to meet the daily or monthly expenses.

Apply for Personal Loan

What are the Restrictions on Usage of Microcredit from MIF?

The micro financial institution does not give loan assistance for certain businesses. Some of them are listed below for your ease of reference:

If you have any other loan or debt, microfinance institutions will not come forward to your help.

Your business plan cannot be about production or manufacturing of tobacco or alcohol.

The borrower cannot take micro loans from these financial institutions to set up gambling business.

You cannot purchase any land or property if that does not belong to the business for which you have taken a loan from these institutions.

Any illegal or unsolicited business will not be funded by microfinance institutions under any circumstances.

MFIs don't provide loans to meet the borrower's personal need. The loans are provided only for business or other income-generating purposes.

How do MFIs help to Provide Insurance for Businesses and Individuals?

Life and business are uncertain as well as vulnerable to accidents. So, to counter any unwanted situation MFIs provide insurance policies to businesses as well to individuals. Various microfinance institutions have made tie-ups with various banks to provide them with insurance cover at a minimal cost. They offer various types of insurances like property insurance, life insurance, health insurance and several others. The terms and conditions for each of these insurances are determined by the insurance providing companies.

How are MFIs Empowering Women in India?

As per the current reports, microfinance institutions are playing a major role in empowering the women force in India. By offering financial services to the poor unprivileged women of the country, the institutions have opened a door for their economic growth. Uneducated, poor and unemployed women usually don't get access to loans from typical lending organisations and this is where the MFIs have come to their help. They provide women access to finance services and offer them with easy loans, saving accounts, insurance and several others as per their need, eligibility and requirement.

It is seen that when women are given access to financial means, they utilise the money for the benefit of their families which strengthen the local economy and makes the health condition and educational access better. As such, the MFIs provide easy financial help to women as they have proven to be credible borrowers with a better sense of responsibility.

After availing financial help from the MFIs, women have turned more positive, confident, taking part in decision-making and coming forward for the benefit of the society. Women who were earlier stuck in their household, have become more socially active with increased mobility. This shows how MFIs are empowering the women in India and paving grounds for their happy, healthy and prosperous future.

Can MFIs Eradicate Poverty from India?

Though the question is very simple, its answer is quite complex. Poverty in India is rising at an alarming rate. Lack of education has lead to unemployment and that in turn has invited extreme poverty. With the introduction of microfinance by the MFIs, the poor section of the society is now able to get funding for business and other money-earning activities. Along with economic support, the organisations are also offering them a scope of education. Thus saying MFIs only help in setting up business will be completely wrong. Apart from setting business, they also help to educate people by conducting fast-track training session to build a skilled and well-equipped workforce. Moreover, with new start-up businesses, more employment possibilities will emerge. As people will get employed and start earning, the poverty ratio will come down slowly. So, it can be said that MFIs can play a very big role in eradicating not only poverty but making people self-sufficient economically.

The microfinance institutions have paved the ground for the under-banked section of India to change their financial status and take themselves up to the high societal pedestals. You can take a loan from these organisations without any security for a certain time-period. Since these institutions don't set any stringent eligibility criteria for the borrower's people can take loans whenever they feel the need without any inhibitions. The only thing that the institutions lay focus on is that the borrower must be from the low-income group and the money is taken for income-generation purposes. Hence, if you are facing issues while getting loans for setting up business due to your bad economic condition, opting for microloans from the MFIs is a feasible and beneficial option.

A GST rate of 18% will be applicable on banking services and products from 01 July, 2017.

MICRO FINANCE CREDIT LENDING MODELS ACROSS THE WORLD

Introduction

"Microfinance:Credit Lending Models" is an attempt to document the various models currently being used by microfinance institutions throughout the world.

A total of 14 models are described below. They include, associations, bank guarantees, community banking, cooperatives, credit unions, grameen, group, individual, intermediaries, NGOs, peer pressure, ROSCAs, small business, and village banking models.

In reality, the models are loosely related with each other, and most good and sustainable microfinance institutions have features of two or more models in their activities.

Many of these models are in deed "formalized" versions of informal financial systems. Informal systems have historical precedents that predate modern banking systems. They are still in existence today used mostly by low-incoe households who do not have access to formal banks. GDRC has developed a continuum of informal credit suppliers that clearly illustrates the link between such informal systems and the models illustrated below.

The models were developed through extensive field work/observations and interviews carried out in India, Thailand, Philippines, Indonesia and Sri Lanka, and includes information from literature as well.

Associations Model

This is where the target community forms an 'association' through which various microfinance (and other) activities are initiated. Such activities may include savings. Associations or groups can be composed of youth, women; can form around political/religious/cultural issues; can create support structures for microenterprises and other work-based issues.

In some countries, an 'association' can be a legal body that has certain advantages such as collection of fees, insurance, tax breaks and other protective measures. Distinction is made between associations, community groups, peoples organizations, etc. on one hand (which are mass, community based) and NGOs, etc. which are essentially external organizations.

Closely related to the group model and similar models.

Bank Guarantees Model

As the name suggests, a bank guarantee is used to obtain a loan from a commercial bank. This guarantee may be arranged externally (through a donor/donation, government agency etc.) or internally (using member savings). Loans obtained may be given directly to an individual, or they may be given to a self-formed group.

Bank Guarantee is a form of capital guarantee scheme. Guaranteed funds may be used for various purposes, including loan recovery and insurance claims. Several international and UN organizations have been creating international guarantee funds that banks and NGOs can subscribe to, to onlend or start microcredit programmes.

Community Banking Model

Community Banking model essentially treats the whole community as one unit, and establishes semi-formal or formal institutions through which microfinance is dispensed. Such institutions are usually formed by extensive help from NGOs and other organizations, who also train the community members in various financial activities of the community bank.

These institutions may have savings components and other income-generating projects included in their structure. In many cases, community banks are also part of larger community development programmes which use finance as an inducement for action.

Closely related to the village banking model.

Cooperatives Model

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Some cooperatives include member-financing and savings activities in their mandate.see the International Cooperative Alliance website for more details.

Credit Unions Model

A credit union is a unique member-driven, self-help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable rates of interest.The members are people of some common bond: working for the same employer; belonging to the same church, labor union, social fraternity, etc.; or living/working in the same community. A credit union's membership is open to all who belong to the group, regardless of race, religion, color or creed.A credit union is a democratic, not-for-profit financial cooperative. Each is owned and governed by its members, with members having a vote in the election of directors and committee representatives.

Grameen Model

The Grameen model emerged from the poor-focussed grassroots institution, Grameen Bank, started by Prof. Mohammed Yunus in Bangladesh. It essentially adopts the following methodology:

A bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the local milieu in which they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population.

Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank.

Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan.

Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense , collective responsibility of the group serves as collateral on the loan.

More information on Grameen Bank can be found in the Case Studies section.

Group Model

The Group Model's basic philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals.

The collective coming together of individual members is used for a number of purposes: educating and awareness building, collective bargaining power, peer pressure etc.

The Group model is closely related to, and has inspired, many other lending models. These include Grameen, community banking, village banking, self-help, solidarity, peer pressure etc.

One example of the Group Model is "Joint Liability". When a group takes out a loan, they are jointly liable to repay the loan when one of the group's members defaults on the repayments.

Several resources for the group model can be found in the Capacity Building for Microfinance section.

Individual Model

This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment.

The individual model is, in many cases, a part of a larger 'credit plus' programme, where other socio-economic services such as skill development, education, and other outreach services are provided.

Intermediaries Model

Intermediary model of credit lending positions a 'go-between' organization between the lenders and borrowers. The intermediary plays a critical role of generating credit awareness and education among the borrowers (including, in some cases, starting savings programmes. These activities are geared towards raising the 'credit worthiness' of the borrowers to a level sufficient enough to make them attractive to the lenders.

The links developed by the intermediaries could cover funding, programme links, training and education, and research. Such activities can take place at various levels from international and national to regional, local and individual levels.

Intermediaries could be individual lenders, NGOs, microenterprise/microcredit programmes, and commercial banks (for government financed programmes). Lenders could be government agencies, commercial banks, international donors, etc.

Most models mentioned here invariably have some form of organizational or operational intermediary - dealing directly with microcredit, or non-financial services. Also called the 'partnership' model. Specifically see NGOs.

NGO Model

NGOs have emerged as a key player in the field of microcredit. They have played the role of intermediary in various dimensions. NGOs have been active in starting and participating in microcredit programmes. This includes creating awareness of the importance of microcredit within the community, as well as various national and international donor agencies.

They have developed resources and tools for communities and microcredit organizations to monitor progress and identify good practices. They have also created opportunities to learn about the principles and practice of microcredit. This includes publications, workshops and seminars, and training programmes.

Peer Pressure Model

Peer pressure uses moral and other linkages between borrowers and project participants to ensure participation and repayment in microcredit programmes. Peers could be other members in a borrowers group (where, unless the initial borrowers in a group repay, the other members do not receive loans. Hence pressure is put on the initial members to repay); community leaders (usually identified, nurtured and trained by external NGOs); NGOs themselves and their field officers; banks etc.

The 'pressure' applied can be in the form of frequent visits to the defaulter, community meetings where they are identified and requested to comply etc.The Grameen model extensively uses peer pressure to ensure repayment among its borrower groups.

ROSCA Model

Rotating Savings and Credit Associations or ROSCAs, are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle.

For example, a group of 12 persons may contribute Rs. 100 (US$33) per month for 12 months. The Rs. 1,200 collected each month is given to one member. Thus, a member will 'lend' money to other members through his regular monthly contributions.

After having received the lump sum amount when it is his turn (i.e. 'borrow' from the group), he then pays back the amount in regular/further monthly contributions. Deciding who receives the lump sum is done by consensus, by lottery, by bidding or other agreed methods.

Small Business Model

The prevailing vision of the 'informal sector' is one of survival, low productivity and very little value added. But this has been changing, as more and more importance is placed on small and medium enterprises (SMEs) - for generating employment, for increasing income and providing services which are lacking.

Policies have generally focussed on direct interventions in the form of supporting systems such as training, technical advice, management principles etc.; and indirect interventions in the form of an enabling policy and market environment.

A key component that is always incorporated as a sort of common denominator has been finance, specifically microcredit - in different forms and for different uses. Microcredit has been provided to SMEs directly, or as a part of a larger enterprise development programme, along with other inputs.

Village Banking Model

Village banks are community-based credit and savings associations. They typically consist of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities.

Initial loan capital for the village bank may come from an external source, but the members themselves run the bank: they choose their members, elect their own officers, establish their own by-laws, distribute loans to individuals, collect payments and savings. Their loans are backed, not by goods or property, but by moral collateral: the promise that the group stands behind each individual loan.

The Village Banking model is closely related to the Community Banking and Group models. This model is widely adopted and implemented by FINCA. See their Village Banking Homepage.

MICRO FINANCE INSTITUTIONS::

Microfinance or Micro Credit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards.

Since the latter half of 2010 Micro Finance Institutions (MFIs) have come under the scanner of public and journalistic scrutiny, particularly in Andhra Pradesh, due to a variety of reasons.
RBI constituted a Sub-Committee of the Central Board of Directors of RBI headed by Shri Y. H. Malegam, commonly known as Malegam Committee, to study Issues and Concerns in the MFI Sector in October 2010. The committee has now presented its report.

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.
Alternatively, MFIs are institutions devoted exclusively to microfinance.
Microfinance Microfinance or Micro Credit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Formally, microfinance service has been defined in the Microfinance Services Regulation Bill as providing financial assistance to an individual or an eligible client, either directly or through a group mechanism for:
i. an amount, not exceeding rupees fifty thousand in aggregate per individual, for small and tiny enterprise, agriculture, allied activities (including for consumption purposes of such individual) or
ii. an amount not exceeding rupees one lac fifty thousand in aggregate per individual for
housing purposes, or
iii. such other amounts, for any of the purposes mentioned at items (i) and (ii) above or other purposes, as may be prescribed.
Categorization of MFIs

MFIs can be categorized as formal, semi-formal or informal.
Formal MFIs are defined as those that are subject not only to general laws but also to specific banking regulation and supervision (development banks, savings and postal banks, commercial banks, and non-bank financial intermediaries).
Formal providers may also be any registered legal organizations offering any kind of financial services.
Semiformal MFIs are registered entities subject to general and commercial laws but are not usually under bank regulation and supervision (financial NGOs, credit unions and cooperatives). Informal MFIs are non-registered groups such as rotating savings and credit associations and self-help groups.
Ownership structures
MFIs can be government-owned, like the rural credit cooperatives in China; member-owned, like the credit unions in West Africa; socially minded shareholders, like many transformed NGOs in Latin America; and profit-maximizing shareholders, like the microfinance banks in Eastern Europe. The types of services offered are limited by what is allowed by the legal structure of the provider: non-regulated institutions are not generally allowed to provide savings or insurance.
Role MFIs could play a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Many of them operate in a limited geographical area, have a greater understanding of the issues specific to the rural poor, enjoy greater acceptability amongst the rural poor and have flexibility in operations providing a level of comfort to their clientele.
Current Issues
Since the latter half of 2010 Micro Finance Institutions (MFIs) have come under the scanner of public and journalistic scrutiny, particularly in Andhra Pradesh, due to a variety of reasons ranging from the issue of corporate governance in one of the leading MFIs to rural suicides purportedly caused by strong arm recovery tactics of MFIs. Following reports of rural distress apparently caused by the 'avarice' of MFIs, the Andhra Pradesh govt. sought clarification from the RBI on regulation of MFIs, specially regarding cap on interest rate. The RBI took the stance that it could regulate only the activities of MFIs registered with it as non-banking finance companies. Although these cover over 80% of microfinance business, in terms of numbers they comprise a small percentage of the total numbers of MFIs in the country. Subsequently, RBI constituted s Sub-Committee of the Central Board of Directors of RBI headed by Shri Y. H. Malegam, commonly known as Malegam Committee, to study Issues and Concerns in the MFI Sector in October 2010. The committee has now presented its report..
Malegam Committee Report
The Sub-committee has made a number of recommendations to mitigate the problems of multiple-lending, over borrowing, ghost borrowers and coercive methods of recovery.
These include :
1. A borrower can be a member of only one Self-Help Group (SHG) or a Joint Liability Group (JLG)
2. Not more than two MFIs can lend to a single borrower
3. There should be a minimum period of moratorium between the disbursement of loan and the commencement of recovery
4. The tenure of the loan must vary with its amount
5. A Credit Information Bureau has to be established
6. The primary responsibility for avoidance of coercive methods of recovery must lie with the MFI and its management
7. RBI must prepare a draft Customer Protection Code to be adopted by all MFIs
8. There must be grievance redressal procedures and establishment of ombudsmen
9. All MFIs must observe a specified Code of Corporate Governance
For monitoring compliance with regulations, the Sub-Committee has proposed a four-pillar approach with the responsibility being shared by MFIs, industry associations, banks and RBI.

Microfinance finance::::

Meaning of Section 25 companies..
What is this category of company ??

A "Section 25" company is registered under Section 25 of the Companies Act, 1956. This section provides an alternative to those who want to promote charity without creating a Trust or a Society for the purpose. It allows the formation of a company, which will exist as a legal entity in its own right, separate from the person promoting it. The crucial bit, however, is that any company under this section must necessarily re-invest any and all income towards promoting the said object or charity. In essence, unlike a regular company, where owners and shareholders can make profits or receive dividends, no money gets out of a Section 25 company.

A Section 25 company is often preferred because it is easier to start — being exempt from statutory requirements of minimum paid-up capital. They are much easier to run than Trusts and Societies, as board meetings require a smaller quorum and requirements for calling such meetings are less rigid. It is easier to increase the number of directors, it is easier for people donating money to join or leave or transfer shares to others, and such a company is obliged to fulfill far less stringent book-keeping and auditing requirements as against a regular company. Lastly, a Section 25 company enjoys significant tax benefits. Depending on how it is registered under the Income-Tax Act, companies could benefit from income-tax exemptions, or from the provision wherein people donating money to these companies receive income deductions in their income-tax liability. Such companies are also exempt from stamp duty payments. Section 25 is preferred by several businessmen because they are conversant with the company structure, while benefits from several exemptions make it easy for philanthropy.

Micro finance delivery methodologies

The four most important Micro Finance models prevalent in India are:

Model I - individuals or group borrowers are financed directly by banks without the intervention/facilitation of any Non-Government Organisation (NGO).

Model II - borrowers are financed directly with the facilitation extended by formal or informal agencies like Government, Commercial Banks and Micro-Finance Institutions (MFIs) like NGOs, Non Bank Financial Intermediaries and Co-operative Societies;

Model III - financing takes place through NGOs and MFIs as facilitators and financing agencies;

Model IV - is the Grameen Bank Model, similar to the model followed in Bangladesh.

In India, Model II of MF constitutes three-fourths of total micro-financing where activity/joint liability/Self-Help Groups are formed and nurtured by facilitating agencies and are linked directly with banks for the purpose of receiving credit.

Microfinance and poverty

Financial needs and financial services.

In developing economies and particularly in rural areas, many activities that would be classified in the developed world as financial are not monetized: that is, money is not used to carry them out. This is often the case when people need the services money can provide but do not have dispensable funds required for those services, forcing them to revert to other means of acquiring them. In their book The Poor and Their Money, Stuart Rutherford and Sukhwinder Arora cite several types of needs:

Lifecycle Needs: such as weddings, funerals, childbirth, education, home building, widowhood and old age.

Personal Emergencies: such as sickness, injury, unemployment, theft, harassment or death.

Disasters: such as campfires, floods, cyclones and man-made events like war or bulldozing of dwellings.

Investment Opportunities: expanding a business, buying land or equipment, improving housing, securing a job, etc.

People find creative and often collaborative ways to meet these needs, primarily through creating and exchanging different forms of non-cash value. Common substitutes for cash vary from country to country but typically include livestock, grains, jewelry and precious metals. As Marguerite Robinson describes in The Micro finance Revolution, the 1980s demonstrated that "micro finance could provide large-scale outreach profitably," and in the 1990s, "micro finance began to develop as an industry" (2001, p. 54). In the 2000s, the micro finance industry's objective is to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty. While much progress has been made in developing a viable, commercial micro finance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand. The obstacles or challenges to building a sound commercial micro finance industry include:

Inappropriate donor subsidies

Poor regulation and supervision of deposit-taking micro finance institutions (MFIs)

Few MFIs that meet the needs for savings, remittances or insurance

Limited management capacity in MFIs

Institutional inefficiencies

Need for more dissemination and adoption of rural, agricultural micro finance methodologies

Members lack of collateral to secure a loan

Microfinance is the proper tool to reduce income inequality, allowing citizens from lower socio-economical classes to participate in the economy. Moreover, its involvement has shown to lead to a downward trend in income inequality (Hermes, 2014).

Ways in which poor people manage their money

Saving up

Rutherford argues that the basic problem that poor people face as money managers is to gather a 'usefully large' amount of money. Building a new home may involve saving and protecting diverse building materials for years until enough are available to proceed with construction. Children’s schooling may be funded by buying chickens and raising them for sale as needed for expenses, uniforms, bribes, etc. Because all the value is accumulated before it is needed, this money management strategy is referred to as 'saving up'.(Hermes, 2014).

Often, people don't have enough money when they face a need, so they borrow. A poor family might borrow from relatives to buy land, from a moneylender to buy rice, or from a microfinance institution to buy a sewing machine. Since these loans must be repaid by saving after the cost is incurred, Rutherford calls this 'saving down'. Rutherford's point is that microcredit is addressing only half the problem, and arguably the less important half: poor people borrow to help them save and accumulate assets. Microcredit institutions should fund their loans through savings accounts that help poor people manage their myriad risks.[citation needed

Saving down

Most needs are met through a mix of saving and credit. A benchmark impact assessment of Grameen Bank and two other large microfinance institutions in Bangladesh found that for every $1 they were lending to clients to finance rural non-farm micro-enterprise, about $2.50 came from other sources, mostly their clients' savings.[6] This parallels the experience in the West, in which family businesses are funded mostly from savings, especially during start-up.

Recent studies have also shown that informal methods of saving are unsafe. For example, a study by Wright and Mutesasira in Uganda concluded that "those with no option but to save in the informal sector are almost bound to lose some money—probably around one quarter of what they save there."

The work of Rutherford, Wright and others has caused practitioners to reconsider a key aspect of the microcredit paradigm: that poor people get out of poverty by borrowing, building microenterprises and increasing their income. The new paradigm places more attention on the efforts of poor people to reduce their many vulnerabilities by keeping more of what they earn and building up their assets. While they need loans, they may find it as useful to borrow for consumption as for microenterprise. A safe, flexible place to save money and withdraw it when needed is also essential for managing household and family risk.[citation needed]

Examples

The microfinance project of "saving up" is exemplified in the slums of the south-eastern city of Vijayawada, India. This microfinance project functions as an unofficial banking system where Jyothi, a "deposit collector", collects money from slum dwellers, mostly women, in order for them to accumulate savings. Jyothi does her rounds throughout the city, collecting Rs5 a day from people in the slums for 220 days, however not always 220 days in a row since these women do not always have the funds available to put them into savings. They ultimately end up with Rs1000 at the end of the process. However, there are some issues with this microfinance saving program. One of the issues is that while saving, clients are actually losing part of their savings. Jyothi takes interest from each client—about 20 out of every 220 payments, or Rs100 out of 1,100 or 8%. When these slum dwellers find someone they trust, they are willing to pay up to 30% to someone to safely collect and keep their savings. There is also the risk of entrusting their savings to unlicensed, informal, peripatetic collectors. However, the slum dwellers are willing to accept this risk because they are unable to save at home, and unable to use the remote and unfriendly banks in their country. This microfinance project also has many benefits, such as empowering women and giving parents the ability to save money for their children’s education. This specific microfinance project is an example of the benefits and limitations of the "saving up" project (Rutherford, 2009).

The microfinance project of "saving through" is shown in Nairobi, Kenya which includes a Rotating Savings and Credit Associations or ROSCAs initiative. This is a small scale example, however Rutherford (2009) describes a woman he met in Nairobi and studied her ROSCA. Everyday 15 women would save 100 shillings so there would be a lump sum of 1,500 shillings and everyday 1 of the 15 women would receive that lump sum. This would continue for 15 days and another woman within this group would receive the lump sum. At the end of the 15 days a new cycle would start. This ROSCA initiative is different from the "saving up" example above because there are no interest rates affiliated with the ROSCA, additionally everyone receives back what they put forth. This initiative requires trust and social capital networks in order to work, so often these ROSCAs include people who know each other and have reciprocity. The ROSCA allows for marginalized groups to receive a lump sum at one time in order to pay or save for specific needs they have.

Microfinance debates and challenges

There are several key debates at the boundaries of microfinance.

Interest rates

This shop in South Sudan was opened using money borrowed from the Finance Sudan Limited (FSL) Program. This program was established in 2006 as one of the only microfinance lenders in the country.

One of the principal challenges of microfinance is providing small loans at an affordable cost. The global average interest and fee rate is estimated at 37%, with rates reaching as high as 70% in some markets.[8] The reason for the high interest rates is not primarily cost of capital. Indeed, the local microfinance organizations that receive zero-interest loan capital from the online microlending platform Kiva charge average interest and fee rates of 35.21%.[9] Rather, the main reason for the high cost of microfinance loans is the high transaction cost of traditional microfinance operations relative to loan size.

Microfinance practitioners have long argued that such high interest rates are simply unavoidable, because the cost of making each loan cannot be reduced below a certain level while still allowing the lender to cover costs such as offices and staff salaries. For example, in Sub-Saharan Africa credit risk for microfinance institutes is very high, because customers need years to improve their livelihood and face many challenges during this time. Financial institutes often do not even have a system to check the person's identity. Additionally they are unable to design new products and enlarge their business to reduce the risk. The result is that the traditional approach to microfinance has made only limited progress in resolving the problem it purports to address: that the world's poorest people pay the world's highest cost for small business growth capital. The high costs of traditional microfinance loans limit their effectiveness as a poverty-fighting tool. Offering loans at interest and fee rates of 37% mean that borrowers who do not manage to earn at least a 37% rate of return may actually end up poorer as a result of accepting the loans.

Example of a loan contract, using flat rate calculation, from rural Cambodia. Loan is for 400,000 riels at 4% flat (16,000 riels) interest per month.

According to a recent survey of microfinance borrowers in Ghana published by the Center for Financial Inclusion, more than one-third of borrowers surveyed reported struggling to repay their loans. Some resorted to measures such as reducing their food intake or taking children out of school in order to repay microfinance debts that had not proven sufficiently profitable.[citation needed]

In recent years, the microfinance industry has shifted its focus from the objective of increasing the volume of lending capital available, to address the challenge of providing microfinance loans more affordably. Microfinance analyst David Roodman contends that, in mature markets, the average interest and fee rates charged by microfinance institutions tend to fall over time.[13][14] However, global average interest rates for microfinance loans are still well above 30%.

The answer to providing microfinance services at an affordable cost may lie in rethinking one of the fundamental assumptions underlying microfinance: that microfinance borrowers need extensive monitoring and interaction with loan officers in order to benefit from and repay their loans. The P2P microlending service Zidisha is based on this premise, facilitating direct interaction between individual lenders and borrowers via an internet community rather than physical offices. Zidisha has managed to bring the cost of microloans to below 10% for borrowers, including interest which is paid out to lenders. However, it remains to be seen whether such radical alternative models can reach the scale necessary to compete with traditional microfinance programs.

Use of loans

Practitioners and donors from the charitable side of microfinance frequently argue for restricting microcredit to loans for productive purposes—such as to start or expand a microenterprise. Those from the private-sector side respond that, because money is fungible, such a restriction is impossible to enforce, and that in any case it should not be up to rich people to determine how poor people use their money[citation needed].

Reach versus depth of impact

These goats are being raised by Rwandan women as part of a farm cooperative funded by microfinance.

There has been a long-standing debate over the sharpness of the trade-off between 'outreach' (the ability of a microfinance institution to reach poorer and more remote people) and its 'sustainability' (its ability to cover its operating costs—and possibly also its costs of serving new clients—from its operating revenues). Although it is generally agreed that microfinance practitioners should seek to balance these goals to some extent, there are a wide variety of strategies, ranging from the minimalist profit-orientation of BancoSol in Bolivia to the highly integrated not-for-profit orientation of BRAC in Bangladesh. This is true not only for individual institutions, but also for governments engaged in developing national microfinance systems. BRAC was ranked the number one NGO in the world in 2015 and 2016 by the Geneva-based NGO Advisor.[16][17]

Gender

Microfinance generally agree that women should be the primary focus of service delivery. Evidence shows that they are less likely to default on their loans than men. Industry data from 2006 for 704 MFIs reaching 52 million borrowers includes MFIs using the solidarity lending methodology (99.3% female clients) and MFIs using individual lending (51% female clients). The delinquency rate for solidarity lending was 0.9% after 30 days (individual lending—3.1%), while 0.3% of loans were written off (individual lending—0.9%).[18] Because operating margins become tighter the smaller the loans delivered, many MFIs consider the risk of lending to men to be too high. This focus on women is questioned sometimes, however a recent study of microenterpreneurs from Sri Lanka published by the World Bank found that the return on capital for male-owned businesses (half of the sample) averaged 11%, whereas the return for women-owned businesses was 0% or slightly negative.

Microfinance's emphasis on female-oriented lending is the subject of controversy, as it is claimed that microfinance improves the status of women through an alleviation of poverty. It is argued that by providing women with initial capital, they will be able to support themselves independent of men, in a manner which would encourage sustainable growth of enterprise and eventual self-sufficiency. This claim has yet to be proven in any substantial form. Moreover, the attraction of women as a potential investment base is precisely because they are constrained by socio-cultural norms regarding such concepts of obedience, familial duty, household maintenance and passivity.[20] The result of these norms is that while micro-lending may enable women to improve their daily subsistence to a more steady pace, they will not be able to engage in market-oriented business practice beyond a limited scope of low-skilled, low-earning, informal work.Part of this is a lack of permissivity in the society; part a reflection of the added burdens of household maintenance that women shoulder alone as a result of microfinancial empowerment; and part a lack of training and education surrounding gendered conceptions of economics. In particular, the shift in norms such that women continue to be responsible for all the domestic private sphere labour as well as undertaking public economic support for their families, independent of male aid increases rather than decreases burdens on already limited persons.

Women of Malawi posing with their savings box

If there were to be an exchange of labour, or if women's income were supplemental rather than essential to household maintenance, there might be some truth to claims of establishing long-term businesses; however when so constrained it is impossible for women to do more than pay off a current loan only to take on another in a cyclic pattern which is beneficial to the financier but hardly to the borrower. This gender essentializing crosses over from institutionalized lenders such as the Grameen Bank into interpersonal direct lending through charitable crowd-funding operations, such as Kiva. More recently, the popularity of non-profit global online lending has grown, suggesting that a redress of gender norms might be instituted through individual selection fomented by the processes of such programs, but the reality is as yet uncertain. Studies have noted that the likelihood of lending to women, individually or in groups, is 38% higher than rates of lending to men.

This is also due to a general trend for interpersonal microfinance relations to be conducted on grounds of similarity and internal/external recognition: lenders want to see something familiar, something supportable in potential borrowers, so an emphasis on family, goals of education and health, and a commitment to community all achieve positive results from prospective financiers. Unfortunately, these labels disproportionately align with women rather than men, particularly in the developing world. The result is that microfinance continues to rely on restrictive gender norms rather than seek to subvert them through economic redress in terms of foundation change: training, business management and financial education are all elements which might be included in parameters of female-aimed loans and until they are the fundamental reality of women as a disadvantaged section of societies in developing states will go untested.

Benefits and limitations

Microfinancing produces many benefits for poverty stricken and low-income households. One of the benefits is that it is very accessible. Banks today simply won’t extend loans to those with little to no assets, and generally don’t engage in small size loans typically associated with microfinancing. Through microfinancing small loans are produced and accessible. Microfinancing is based on the philosophy that even small amounts of credit can help end the cycle of poverty. Another benefit produced from the microfinancing initiative is that it presents opportunities, such as extending education and jobs. Families receiving microfinancing are less likely to pull their children out of school for economic reasons. As well, in relation to employment, people are more likely to open small businesses that will aid the creation of new jobs. Overall, the benefits outline that the microfinancing initiative is set out to improve the standard of living amongst impoverished communities (Rutherford, 2009).

There are also many social and financial challenges for microfinance initiatives. For example, more articulate and better-off community members may cheat poorer or less-educated neighbours. This may occur intentionally or inadvertently through loosely run organizations. As a result, many microfinance initiatives require a large amount of social capital or trust in order to work effectively. The ability of poorer people to save may also fluctuate over time as unexpected costs may take priority which could result in them being able to save little or nothing some weeks. Rates of inflation may cause funds to lose their value, thus financially harming the saver and not benefiting the collector (Rutherford, 2009).

History of microfinance

Over the past centuries, practical visionaries, from the Franciscan monks who founded the community-oriented pawnshops of the 15th century to the founders of the European credit union movement in the 19th century (such as Friedrich Wilhelm Raiffeisen) and the founders of the microcredit movement in the 1970s (such as Muhammad Yunus and Al Whittaker), have tested practices and built institutions designed to bring the kinds of opportunities and risk-management tools that financial services can provide to the doorsteps of poor people.[24] While the success of the Grameen Bank (which now serves over 7 million poor Bangladeshi women) has inspired the world,[citation needed] it has proved difficult to replicate this success. In nations with lower population densities, meeting the operating costs of a retail branch by serving nearby customers has proven considerably more challenging. Hans Dieter Seibel, board member of the European Microfinance Platform, is in favour of the group model. This particular model (used by many Microfinance institutions) makes financial sense, he says, because it reduces transaction costs. Microfinance programmes also need to be based on local funds.

The history of microfinancing can be traced back as far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty. Independently of Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany.

The modern use of the expression "microfinancing" has roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of microfinancing.[citation needed] Another pioneer in this sector is Akhtar Hameed Khan.

Microfinance standards and principles

A group of Indian women have assembled to make bamboo products that they intend to resell.

Poor people borrow from informal moneylenders and save with informal collectors. They receive loans and grants from charities. They buy insurance from state-owned companies. They receive funds transfers through formal or informal remittance networks. It is not easy to distinguish microfinance from similar activities. It could be claimed that a government that orders state banks to open deposit accounts for poor consumers, or a moneylender that engages in usury, or a charity that runs a heifer pool are engaged in microfinance. Ensuring financial services to poor people is best done by expanding the number of financial institutions available to them, as well as by strengthening the capacity of those institutions. In recent years there has also been increasing emphasis on expanding the diversity of institutions, since different institutions serve different needs.

Some principles that summarize a century and a half of development practice were encapsulated in 2004 by CGAP and endorsed by the Group of Eight leaders at the G8 Summit on June 10, 2004:

Poor people need not just loans but also savings, insurance and money transfer services.

Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks.

"Microfinance can pay for itself."Subsidies from donors and government are scarce and uncertain and so, to reach large numbers of poor people, microfinance must pay for itself.

Microfinance means building permanent local institutions.

Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.

"The job of government is to enable financial services, not to provide them."

"Donor funds should complement private capital, not compete with it."

"The key bottleneck is the shortage of strong institutions and managers."Donors should focus on capacity building.

Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.

Microfinance institutions should measure and disclose their performance—both financially and socially.

Microfinance is considered a tool for socio-economic development, and can be clearly distinguished from charity. Families who are destitute, or so poor they are unlikely to be able to generate the cash flow required to repay a loan, should be recipients of charity. Others are best served by financial institutions.

Scale of microfinance operations

Two women talk about financial matters. The woman on the right is a loan officer for the Small Enterprise Foundation (SEF). The conversation shown is taking place in Tzaneen, South Africa in February 2010.

No systematic effort to map the distribution of microfinance has yet been undertaken. A benchmark was established by an analysis of 'alternative financial institutions' in the developing world in 2004.[29] The authors counted approximately 665 million client accounts at over 3,000 institutions that are serving people who are poorer than those served by the commercial banks. Of these accounts, 120 million were with institutions normally understood to practice microfinance. Reflecting the diverse historical roots of the movement, however, they also included postal savings banks (318 million accounts), state agricultural and development banks (172 million accounts), financial cooperatives and credit unions (35 million accounts) and specialized rural banks (19 million accounts).

Regionally, the highest concentration of these accounts was in India (188 million accounts representing 18% of the total national population). The lowest concentrations were in Latin America and the Caribbean (14 million accounts representing 3% of the total population) and Africa (27 million accounts representing 4% of the total population, with the highest rate of penetration in West Africa, and the highest growth rate in Eastern and Southern Africa). Considering that most bank clients in the developed world need several active accounts to keep their affairs in order, these figures indicate that the task the microfinance movement has set for itself is still very far from finished.

By type of service, "savings accounts in alternative finance institutions outnumber loans by about four to one. This is a worldwide pattern that does not vary much by region."

An important source of detailed data on selected microfinance institutions is the MicroBanking Bulletin, which is published by Microfinance Information Exchange. At the end of 2009, it was tracking 1,084 MFIs that were serving 74 million borrowers ($38 billion in outstanding loans) and 67 million savers ($23 billion in deposits).

Another source of information regarding the environment of microfinance is the Global Microscope on the Microfinance Business Environment,[33] prepared by the Economist Intelligence Unit (EIU), the Inter-American Development Bank, and others. The 2011 report contains information on the environment of microfinance in 55 countries among two categories, Regulatory Framework and the Supporting Institutional Framework. This publication, also known as the Microscope, was first developed in 2007, focusing only on Latin America and the Caribbean, but by 2009, this report had become a global study.

As yet there are no studies that indicate the scale or distribution of 'informal' microfinance organizations like ROSCA's and informal associations that help people manage costs like weddings, funerals and sickness.

Numerous case studies have been published, however, indicating that these organizations, which are generally designed and managed by poor people themselves with little outside help, operate in most countries in the developing world.

Help can come in the form of more and better-qualified staff, thus higher education is needed for microfinance institutions. This has begun in some universities, as Oliver Schmidt describes. Mind the management gap

Microfinance in the United States and Canada

In Canada and the US, microfinance organizations target marginalized populations unable to access mainstream bank financing. Close to 8% of Americans are unbanked, meaning around 9 million are without any kind of bank account or formal financial services. Most of these institutions are structured as nonprofit organizations.[38] Microloans in the U.S. context is defined as the extension of credit up to $50,000.[39] In Canada, CRA guidelines restrict microfinance loans to a maximum of $25,000.[40] The average microfinance loan size in the US is US$9,732, ten times the size of an average microfinance loan in developing countries (US$973).

Impact

While all microfinance institutions aim at increasing incomes and employment, in developing countries the empowerment of women, improved nutrition and improved education of the borrower's children are frequently aims of microfinance institutions. In the US and Canada, aims of microfinance include the graduation of recipients from welfare programs and an improvement in their credit rating. In the US, microfinance has created jobs directly and indirectly, as 60% of borrowers were able to hire others. According to reports, every domestic microfinance loan creates 2.4 jobs.] These entrepreneurs provide wages that are, on average, 25% higher than minimum wage. Small business loans eventually allow small business owners to make their businesses their primary source of income, with 67% of the borrowers showing a significant increase in their income as a result of their participation in certain micro-loan programs. In addition, these business owners are able to improve their housing situation, 70% indicating their housing has improved.[41] Ultimately, many of the small business owners that use social funding are able to graduate from government funding.[

United States

In the late 1980s, microfinance institutions developed in the United States. They served low-income and marginalized minority communities. By 2007, there were 500 microfinance organizations operating in the US with 200 lending capital.[38]

There were three key factors that triggered the growth in domestic microfinance:

Change in social welfare policies and focus on economic development and job creation at the macro level.

Encouragement of employment, including self-employment, as a strategy for improving the lives of the poor.

The increase in the proportion of Latin American and Asian immigrants who came from societies where microenterprises are prevalent.

These factors incentivized the public and private supports to have microlending activity in the United States.[

Canada

Microfinance in Canada took shape through the development of credit unions. These credit unions provided financial services to the Canadians who could not get access to traditional financial means. Two separate branches of credit unions developed in Canada to serve the financially marginalized segment of the population. Alphonse Desjardins introduced the establishment of savings and credit services in late 1900 to the Quebecois who did not have financial access. Approximately 30 years later Father Moses Coady introduced credit unions to Nova Scotia. These were the models of the modern institutions still present in Canada today.[43]

Efforts to transfer specific microfinance innovations such as solidarity lending from developing countries to Canada have met with little success.[44]

Selected microfinance institutions in Canada are:

Rise Asset Development

Founded by Sandra Rotman in 2009, Rise is a Rotman and CAMH initiative that provides small business loans, leases, and lines of credit to entrepreneurs with mental health and/or addiction challenges.

Alterna Savings

Formed in 2005 through the merging of the Civil Service Savings and Loan Society and the Metro Credit Union, Alterna is a financial alternative to Canadians. Their banking policy is based on cooperative values and expert financial advising.

Access Community Capital Fund

Based in Toronto, Ontario, ACCESS is a Canadian charity that helps entrepreneurs without collateral or credit history find affordable small loans.

Montreal Community Loan Fund

Created to help eradicate poverty, Montreal Community Loan Fund provides accessible credit and technical support to entrepreneurs with low income or credit for start-ups or expansion of organizations that cannot access traditional forms of credit.

Momentum

Using the community economic development approach, Momentum offers opportunities to people living in poverty in Calgary. Momentum provides individuals and families who want to better their financial situation take control of finances, become computer literate, secure employment, borrow and repay loans for business, and purchase homes.

Vancity

Founded in 1946, Vancity is now the largest English speaking credit union in Canada.

Limitations

Complications specific to Canada include the need for loans of a substantial size in comparison to the ones typically seen in many international microfinance initiatives. Microfinance is also limited by the rules and limitations surrounding money-lending. For example, Canada Revenue Agency limits the loans made in these sort of transactions to a maximum of $25,000. As a result, many people look to banks to provide these loans. Also, microfinance in Canada is driven by profit which, as a result, fails to advance the social development of community members. Within marginalized or impoverished Canadian communities, banks may not be readily accessible to deposit or take out funds. These banks which would have charged little or no interest on small amounts of cash are replaced by lending companies. Here, these companies may charge extremely large interest rates to marginalized community members thus increasing the cycle of poverty and profiting off of another's loss (Rutherford, 2009).

In Canada, microfinancing competes with pay-day loans institutions which take advantage of marginalized and low-income individuals by charging extremely high, predatory interest rates. Communities with low social capital often don't have the networks to implement and support microfinance initiatives, leading to the proliferation of pay day loan institutions. Pay day loan companies are unlike traditional microfinance in that they don't encourage collectivism and social capital building in low income communities, however exist solely for profit.

Microfinance on the Indian subcontinent

Loans to poor people by banks have many limitations including lack of security and high operating costs. As a result, microfinance was developed as an alternative to provide loans to poor people with the goal of creating financial inclusion and equality.

Ela Bhatt had initiated women's own SEWA Cooperative Bank in 1974 in Ahmedabad, Gujarat, perhaps one of the first modern day microfinance institution of its kind. Muhammad Yunus, a Nobel Prize winner, had introduced the concept of Micro-credit in Bangladesh in the form of the "Grameen Bank". The National Bank for Agriculture and Rural Development (NABARD) looked at several models for offering financial services to the unbanked, especially women, and decided to experiment with a very different model, now popularly known as Self-help Groups (SHGs). In this approach, a small group of women (and men) are able to form their own little mini bank, self-governed and managed, and create links with banks SHGs (Self-help groups), NGOs and banks. SHGs are often formed and nurtured by NGOs and only after accomplishing a certain level of maturity in terms of their internal thrift and credit operations, they are able to save, and also seek credit from the banks. There is often an involvement of an NGO, or a government agency during initial training and even after the SHG-Bank linkage. The SHG-Bank linkage programme, which has been in place since 1992 in India, has savings accounts with 7.9 million SHGs, with 4.6 million SHGs having outstanding loans, with approximately $2 billion in saving with banks, and $8.9 Billion is outstanding loans, making it one of the largest microfinance program of its kind in the world (March 2016). It involves commercial banks, regional rural banks (RRBs) and cooperative banks in its operations.

In 2013, Grameen Capital India was able to loan $144 million to microfinance groups. In addition to Grameen Bank, Equitas has been another microfinance organization in Tamil Nadu. The South and Western states are the ones attracting the greatest number of microfinance loans.

Microfinance is defined as, financial services such as savings accounts, insurance funds and credit provided to poor and low income clients so as to help them increase their income, thereby improving their standard of living.

In this context the main features of microfinance are:

Loan given without security

Loans to those people who live below the poverty line

Members of SHGs may benefit from micro finance

Maximum limit of loan under micro finance Rs.25,000/-

Terms and conditions offered to poor people are decided by NGOs

Microfinance is different from Microcredit- under the latter, small loans are given to the borrower but under microfinance alongside many other financial services including savings accounts and insurance. Therefore, microfinance has a wider concept than microcredit.

In June 2014, CRISIL released its latest report on the Indian Microfinance Sector titled "India's 25 Leading MFI's".[46] This list is the most comprehensive and up to date overview of the microfinance sector in India and the different microfinance institutions operating in the sub-continent.

Many loan officers in India create emotional connection with borrowers before loan reaches maturity by mentioning details about borrowers' personal life and family and also demonstrating affection in many different ways as a strategy to generate pressure during recovery.[47]

Microfinance Networks and Associations

There are several professional networks of microfinance institutions, and organisations that support microfinance and financial inclusion.

MicroFinance Network

The Microfinance Network is a network of 20-25 of the world's largest microfinance institutions, spread across Asia, Africa, the Middle East, Europe and Latin America. Established in 1993, the Microfinance Network provided support to members that helped steer many industry leaders to sustainability, and profitability in many of their largest markets. Today as the sector enters a new period of transition, with the rise of digital financial technology that increasingly competes with traditional microfinance institutions, the Microfinance Network provides a space to discuss opportunities and challenges that arise from emerging technological innovations in inclusive finance. [48] The Microfinance Network convenes once a year. Members include Al Majmoua, BRAC, BancoSol, Gentera, Kamurj, LAPO, and SOGESOL.

Partnership for Responsible Financial Inclusion

The Partnership for Responsible Financial, previously known as the Microfinance CEO Working Group, is a collaborative effort of leading international organizations and their CEOs active in the microfinance and inclusive finance space, including direct microfinance practitioners, and microfinance funders. It is constituted of 10 members, including Accion, Aga Khan Agency for Microfinance, BRAC, CARE USA, FINCA Impact Finance, Grameen Foundation, Opportunity International, Pro Mujer, Vision Fund International and Women's World Banking. Harnessing the power of the CEOs and their senior managers, the PRFI advocates for responsible financial services and seeks catalytic opportunities to accelerate financial access to the unserved. As part of this focus, PRFI is responsible for setting up the Smart Campaign, in response to negative microfinance practices that indicated the mistreatment of clients in certain markets. The network is made up of the CEO working group, that meet quarterly and several subcommittee working groups dedicated to communications, social performance, digital financial services, and legal and human resources issues.

European Microfinance Network

The European Microfinance Network was established in response to many legal and political obstacles affecting the microfinance sector in Europe. The Network is involved in advocacy on a wide range of issues related to microfinance, micro-enterprises, social and financial exclusion, self-employment and employment creation. Its main activity is the organisation of its annual conference, which has taken place each year since 2004. The EMN has a wide network of over 100 members.

Africa Microfinance Network (AFMIN)

The Africa Microfinance Network (AFMIN) is an association of microfinance networks in Africa resulting from an initiative led by African microfinance practitioners to create and/or strengthen country-level microfinance networks for the purpose of establishing shared performance standards, institutional capacity and policy change. AFMIN was formally launched in November 2000 and has established its Secretariat in Abidjan (Republic of Côte d'Ivoire), where AFMIN is legally recognized as an international Non-Governmental Organisation pursuant to Ivorian laws. Because of the political unrest in Côte d'Ivoire, AFMIN temporarily relocated its office to Cotonou in Benin.[49]

Inclusive financial systems

The microcredit movement that began in the 1970s has emerged and morphed into a 'financial systems' approach for creating universal financial inclusion. While Grameen model of delivering small credit achieved a great deal, especially in urban and near-urban areas and with entrepreneurial families, its progress in delivering financial services in less densely populated rural areas was slow; creating the need for many and multiple models to emerge across the globe. The terms have evolved from Microcredit, to Microfinance, and now Financial Inclusion. Specialized microfinance institutions (MFIs) continue to expand their services, collaborating and competing with banks, credit unions, mobile money, and other informal and formal member owned institutions.

The new financial systems approach pragmatically acknowledges the richness of centuries of microfinance history and the immense diversity of institutions serving poor people in developing and developed economies today. It is also rooted in an increasing awareness of diversity of the financial service needs of the world’s poorest people, and the diverse settings in which they live and work. It also acknowledges that quality and rage of financial services are also important for the banking system to achieve fuller and deeper financial inclusion, for all. Central banks and mainstream banks are now more intimately engaging in the financial inclusion agenda than ever before, though it is a long road, with over 35-40% of worlds adults remaining outside formal banking system, and many more remaining 'under-banked'. Advent of mobile phone based money management and digital finance is changing the scenario fast; though 'social-distance' between economically poor/ social marginalized and the banking system remain large, unfortunately.

Informal financial service providers

These include moneylenders, pawnbrokers, savings collectors, money-guards, ROSCAs, ASCAs and input supply shops. These continue their services because they know each other well and live in the same community, they understand each other’s financial circumstances and can offer very flexible, convenient and fast services. These services can also be costly and the choice of financial products limited and very short-term. Informal services that involve savings are also risky; many people lose their money.

Member-owned organizations

These include self-help groups, Village Savings and Loan Associations (VSLAs), Credit unions, CVECAs and a variety of other members owned and governed informal or formal financial institutions. Informal groups, like their more traditional cousins, are generally small and local, which means they have access to good knowledge about each other's financial circumstances and can offer convenience and flexibility. Since they are managed by poor people, their costs of operation are low. Often, they do not need regulation and supervision, unless they grow in scale and formalize themselves by coming together to form II or III tier federations. If not prepared well, they can be 'captured' by a few influential leaders, and run the risk of members losing their savings. Experience suggests though that these informal but highly disciplined groups are very sustainable, and continue to exist even after 20–25 years. Formalization, as a Cooperative of Credit Union, can help create links with the banking system for more sophisticated financial products and additional capital for loans; but requires strong leadership and systems. These models are highly popular in many rural regions of countries across Asia, Africa, and Latin America; and a platform for creating deeper financial inclusion.

NGOs

The Microcredit Summit Campaign counted 3,316 of these MFIs and NGOs lending to about 133 million clients by the end of 2006.[50] Led by Grameen Bank and BRAC in Bangladesh, Prodem in Bolivia, Opportunity International, and FINCA International, headquartered in Washington, DC, these NGOs have spread around the developing world in the past three decades; others, like the Gamelan Council, address larger regions. They have proven very innovative, pioneering banking techniques like solidarity lending, village banking and mobile banking that have overcome barriers to serving poor populations. However, with boards that don’t necessarily represent either their capital or their customers, their governance structures can be fragile, and they can become overly dependent on external donors.

Formal financial institutions

In addition to commercial banks, these include state banks, agricultural development banks, savings banks, rural banks and non-bank financial institutions. They are regulated and supervised, offer a wider range of financial services, and control a branch network that can extend across the country and internationally. However, they have proved reluctant to adopt social missions, and due to their high costs of operation, often can't deliver services to poor or remote populations. The increasing use of alternative data in credit scoring, such as trade credit is increasing commercial banks' interest in microfinance.

With appropriate regulation and supervision, each of these institutional types can bring leverage to solving the microfinance problem. For example, efforts are being made to link self-help groups to commercial banks, to network member-owned organizations together to achieve economies of scale and scope, and to support efforts by commercial banks to 'down-scale' by integrating mobile banking and e-payment technologies into their extensive branch networks.

Brigit Helms in her book 'Access for All: Building Inclusive Financial Systems', distinguishes between four general categories of microfinance providers, and argues for a pro-active strategy of engagement with all of them to help them achieve the goals of the microfinance movement.[52]

Microcredit and the Web

Due to the unbalanced emphasis on credit at the expense of microsavings, as well as a desire to link Western investors to the sector, peer-to-peer platforms have developed to expand the availability of microcredit through individual lenders in the developed world. New platforms that connect lenders to micro-entrepreneurs are emerging on the Web (peer-to-peer sponsors), for example MYC4, Kiva, Zidisha, myELEN, Opportunity International and the Microloan Foundation. Another Web-based microlender United Prosperity uses a variation on the usual microlending model; with United Prosperity the micro-lender provides a guarantee to a local bank which then lends back double that amount to the micro-entrepreneur. In 2009, the US-based nonprofit Zidisha became the first peer-to-peer microlending platform to link lenders and borrowers directly across international borders without local intermediaries.

The volume channeled through Kiva's peer-to-peer platform is about $100 million as of November 2009 (Kiva facilitates approximately $5M in loans each month). In comparison, the needs for microcredit are estimated about 250 bn USD as of end 2006.[54] Most experts agree that these funds must be sourced locally in countries that are originating microcredit, to reduce transaction costs and exchange rate risks.

There have been problems with disclosure on peer-to-peer sites, with some reporting interest rates of borrowers using the flat rate methodology instead of the familiar banking Annual Percentage Rate.[55] The use of flat rates, which has been outlawed among regulated financial institutions in developed countries, can confuse individual lenders into believing their borrower is paying a lower interest rate than, in fact, they are.[citation needed] In the summer of 2017, within the framework of the joint project of the Bank of Russia and Yandex, a special check mark (a green circle with a tick and 'Реестр ЦБ РФ' (State MFO Register) text box) appeared in the search for Yandex system, informing the consumer that the company's financial services are offered on the marked website, which has the status of a microfinance organization.

Microfinance and social interventions

There are currently a few social interventions that have been combined with micro financing to increase awareness of HIV/AIDS. Such interventions like the "Intervention with Microfinance for AIDS and Gender Equity" (IMAGE) which incorporates microfinancing with "The Sisters-for-Life" program a participatory program that educates on different gender roles, gender-based violence, and HIV/AIDS infections to strengthen the communication skills and leadership of women [57] "The Sisters-for-Life" program has two phases where phase one consists of ten one-hour training programs with a facilitator with phase two consisting of identifying a leader amongst the group, train them further, and allow them to implement an Action Plan to their respective centres.

Microfinance has also been combined with business education and with other packages of health interventions.[58] A project undertaken in Peru by Innovations for Poverty Action found that those borrowers randomly selected to receive financial training as part of their borrowing group meetings had higher profits, although there was not a reduction in "the proportion who reported having problems in their business".[59] Pro Mujer, a non-governmental organisation (NGO) with operations in five Latin American countries, combines microfinance and healthcare. This approach shows, that microfinance can not only help businesses to prosper; it can also foster human development and social security. Pro Mujer uses a "one-stop shop" approach, which means in one building, the clients find financial services, business training, empowerment advice and healthcare services combined.

According to technology analyst David Garrity, Microfinance and Mobile Financial Services (MFS) have provided marginal populations with access to basic financial services, including savings programs and insurance policies.

Impact and criticism

Most criticisms of microfinance have actually been criticisms of microcredit. Criticism focuses on the impact on poverty, the level of interest rates, high profits, overindebtedness and suicides. Other criticism include the role of foreign donors and working conditions in companies affiliated to microfinance institutions, particularly in Bangladesh.

Impact

Further information: Impact of microcredit

The impact of microcredit is a subject of much controversy. Proponents state that it reduces poverty through higher employment and higher incomes. This is expected to lead to improved nutrition and improved education of the borrowers' children. Some argue that microcredit empowers women. In the US and Canada, it is argued that microcredit helps recipients to graduate from welfare programs.

Critics say that microcredit has not increased incomes, but has driven poor households into a debt trap, in some cases even leading to suicide. They add that the money from loans is often used for durable consumer goods or consumption instead of being used for productive investments, that it fails to empower women, and that it has not improved health or education. Moreover, as the access to micro-loans is widespread, borrowers tend to acquire several loans from different companies, making it nearly impossible to pay the debt back.[62] As a result of such tragic events, microfinance institutions in India have agreed on setting an interest rate ceiling of 15 percent.[63] This is important because microfinance loan recipients have a higher level of security in repaying the loans and a lower level of risk in failing to repay them.

The available evidence indicates that in many cases microcredit has facilitated the creation and the growth of businesses. It has often generated self-employment, but it has not necessarily increased incomes after interest payments. In some cases it has driven borrowers into debt traps.[citation needed] There is no evidence that microcredit has empowered women. In short, microcredit has achieved much less than what its proponents said it would achieve, but its negative impacts have not been as drastic as some critics have argued. Microcredit is just one factor influencing the success of small businesses, whose success is influenced to a much larger extent by how much an economy or a particular market grows. For example, local competition in the area of lack of a domestic markets for certain goods can influence how successful small businesses who receive microcredit are.[citation needed]

Unintended consequences of microfinance include informal intermediaton: That is, some entrepreneurial borrowers become informal intermediaries between microfinance initiatives and poorer micro-entrepreneurs. Those who more easily qualify for microfinance split loans into smaller credit to even poorer borrowers. Informal intermediation ranges from casual intermediaries at the good or benign end of the spectrum to 'loan sharks' at the professional and sometimes criminal end of the spectrum.

Mission drift in microfinance

Mission drift refers to the phenomena through which the MFIs or the micro finance institutions increasingly try to cater to customers who are better off than their original customers, primarily the poor families. Roy Mersland and R. Øystein Strøm in their research on mission drift suggest that this selection bias can come not only through an increase in the average loan size, which allows for financially stronger individuals to get the loans, but also through the MFI's particular lending methodology, main market of operation, or even the gender bias as further mission drift measures.[And as it may follow, this selective funding would lead to lower risks and lower costs for the firm.

However, economists Beatriz Armendáriz and Ariane Szafarz suggests that this phenomenon is not driven by cost minimization alone. She suggests that it happens because of the interplay between the company's mission, the cost differential between poor and unbanked wealthier clients and region specific characteristics pertaining the heterogeneity of their clientele.[66] But in either way, this problem of selective funding leads to an ethical tradeoff where on one hand there is an economic reason for the company to restrict its loans to only the individuals who qualify the standards, and on the other hand there is an ethical responsibility to help the poor people get out of poverty through the provision of capital.

Role of foreign donors

The role of donors has also been questioned. CGAP recently commented that "a large proportion of the money they spend is not effective, either because it gets hung up in unsuccessful and often complicated funding mechanisms (for example, a government apex facility), or it goes to partners that are not held accountable for performance. In some cases, poorly conceived programs have retarded the development of inclusive financial systems by distorting markets and displacing domestic commercial initiatives with cheap or free money."

Working conditions in enterprises affiliated to MFIs

There has also been criticism of microlenders for not taking more responsibility for the working conditions of poor households, particularly when borrowers become quasi-wage labourers, selling crafts or agricultural produce through an organization controlled by the MFI. The desire of MFIs to help their borrower diversify and increase their incomes has sparked this type of relationship in several countries, most notably Bangladesh, where hundreds of thousands of borrowers effectively work as wage labourers for the marketing subsidiaries of Grameen Bank or BRAC. Critics maintain that there are few if any rules or standards in these cases governing working hours, holidays, working conditions, safety or child labour, and few inspection regimes to correct abuses.[68] Some of these concerns have been taken up by unions and socially responsible investment advocates.

Abuse

In Nigeria cases of fraud have been reported. Dubious banks promised their clients outrageous interest rates. These banks were closed shortly after clients had deposited money and their deposits were lost. The officials of Nigeria Deposit Insurance Corporation (NDIC) have warned customers about so-called "wonder banks".[69] One initiative to prevent people from depositing money to wonder banks is the mini-series "e go better" that warns about the practices of these wonder banks.[70]

.

LEGAL & REGULATORY FRAMEWORK FOR MICROFINANCE IN INDIA

Microfinance Institutions, as the name suggests, it plans to cater to the financial need of the smallest strata (low-income group) of the society. The smallest category of the society like rural women, peasants, workers and other such small people who have no capacity to visit the banks for loan application in connection with their occupations.The microfinance industry has achieved an unprecedented growth over the last two decades

Therefore Microfinance Services Regulation Bill has been introduced for the purpose of financial assistance to be provided to an eligible individual directly or by a group mechanism for certain purpose to be achieved by the borrowers(members).

There are various types of microfinance institutions/ organizations operating in India. Mainly they are like

Joint Liability Group (JLG), Self Help Group (SHG), the Grameen Bank Model and Rural Cooperatives etc. Having main aim of financial inclusion of smallest person of the society.

However, it is not easy to operate smoothly by such MFIs as there are many challenges faced by Indian microfinance industry.

The main area of its operation is confined to the poorer section of the country, over-indebtedness is a common and serious challenge faced by the MFIs.The members have generally borrowed the funds from other available sources. There are some of the other challenges also and they are like

High rates of interest being charged to members.

Over-dependence on the banking system to procure the funds for MFI business.

Illiteracy and lack of awareness by the members (borrowers) as they are largely from a rural

The legal framework for MFIs in India with reference to its registration and other parameters can be broadly narrated as under:

For **Societies** – Registration for this is a very easy process with no minimum capital requirement. Further, they are not allowed for deposit mobilization/ collection from the public. It has to operate amongst its members only.

For **Trust**—Registration for this is very easy with no minimum capital requirement. It is not allowed for deposit mobilization/ collection from the public. It is sometimes problematic as the funds for further expansion may not be available. It has limited scope for expansion.

For Sec. 25 Companies—Registration is easy but not that easy as those of trusts and societies, especially for an existing company to convert into a Section 25 company. It is not allowed for deposit mobilization/ collection from the public. However, it contributes a lot to the process of financial inclusion.

For **NBFC-MFI**— Registration for this is to be taken up with RBI and it is difficult to obtain due to stringent provisions of the RBI. It requires minimum capital of Rs. 5 crores (Rs. 2 crores for North-East India region) to start MFI operations. It is not allowed for deposit mobilization/ collection from the public. It has a large scope and provides a good background for scaling up of the operations as it has investors' confidence with it. It is observed that many MFIs in India, especially in South India and West Bengal, have grown and developed its activities/ operation remarkably.RBI is a strict regulator for MFIs and it monitors very closely from time to time.

For Cooperative Societies— Registration for this is very easy (except in the state of Maharashtra) with the minimum capital requirement. It has very minimal regulatory requirements to fulfill in this matter. It is allowed to collect the deposits from its members only. It is relatively easy to scale up/ expand its activities. It is observed that many cooperative societies in Maharashtra and South India have progressed very much in terms of size and activities undertaken.

There are many structural weaknesses of RRBs, cooperative societies, and urban cooperative banks, thus the microfinance movement has a remarkable presence in the Indian credit market.

However, the RBI has clearly specified the regulatory framework for MFI which guide them to function smoothly and it is summarized as below:

As per the RBI, NBFC – Microfinance Institutions means a non-deposit taking NBFC (other than a company formed and registered under section 25 of the Companies Act, 1956) that fulfils the necessary conditions pertaining to minimum net owned funds, net assets criteria, qualifying assets criteria and other incidental requirements related to the loan disbursement to the members. The regulatory guidelines of RBI help a lot to grow, expand and develop the MFIs in a systemic way.

The regulatory framework in a country can have a huge impact on the viability of microfinance. The forms of legal organisation an institution has exemptions available to them, registration requirements, interest rate caps, capitalisation etc. are all determined by the legal framework.

The aim of supportive regulatory framework is to build strong regulated and unregulated institutions of all types -

to provide services on sustainable basis under uniform, common, shared performance standards. to encourage the regulatory authority to develop appropriate prudential regulations and staff capacity that are tailored to the institutions operational and risk profile.

This objective requires defining different tiers of financial institutions with different degrees of regulatory requirements. The requirement could vary from

(i) Simply registering as legal entities.

(ii) To prepare and publish periodic reports on operations and financial results

(iii) Observing non-prudential rules of conduct in business operations.

(iv) Securing a proper being and being subject to prudential regulation by a regulatory authority, prudential supervision, or both by a central supervisory authority.

The framework identifies different categories and tiers institutional providers of microfinance and specifies the activities that trigger the need for progressively stronger type of regulation and supervision. There is a plurality in the regulatory mechanism - RBI, GOI and State Governments. It is a known fact that the Reserve Bank of India is a super regulator for the financial system. To reach large number of people, microfinance eventually moves through institutions that are licensed and supervised by country's financial authorities. Because microfinance is different from conventional banking, the banking laws and regulations of most countries are gradually being adjusted to accommodate licensed microfinance. Microfinance regulation refers to the set of legal rules that apply to microfinance. Areas of regulation that typically require adjustment include the relaxation of unsecured lending limits, tightening of capital adequacy ratio, strict rules for provisioning for loan losses and lower minimum capital requirements. Since MFIs are generally small institutions than banks or NBFCs.

Microfinance regulations refer to the set of legal rules that apply to micro finance. Supervision is in the process of enforcing compliance with those rules.

Financial services providers that take deposits need prudential regulation. Regulation helps in long-term sustainability, even though MFIs may safe under it in the initial years. Regulation and supervision ensure that MFIs are run prudently and cases of poor people losing their money due to fraud or incompetence are minimised. Various policies, guidelines, actions / initiatives and programmes of the government and Reserve Bank of India are the indicatives of the recognition and role of the microfinance in the socio-economic development of rural sector in India. Sound and unambiguous legislative framework is a prerequisite for an efficient regulatory system. At present, In India, there are about 60 Acts and multiple rules and regulations, many of which are archaic and the large number of amendments have made the laws ambiguous and complex. Government of India has constituted a financial sector legislative reforms commission (FSLRC) to rewrite and streamline the financial sector laws, rules and regulations to bring them in harmony with India's fast growing financial sector. This study has made an attempt to highlight the policies, guidelines and directives related to field undertaken for research work that is for effective regulation of microfinance activities in India.

Some of the fundamentals of regulation should be worthy of recall. They are -

Do not regulate what cannot be supervised. Even carefully developed regulations will become irrelevant if effective supervision is not enforceable. Safety, soundness and sustainability should serve as foundation for a good regulatory framework. Micro-finance supervision requires cultural change. There should be regulatory impact assessment as part of the act that should be presented to both houses of parliament on the first day of the Budget discussion session. As a basic general principle, microfinance regulation should be uniform across all institutional forms so as to discourage regulatory arbitrage. This involves structuring operations in such a manner that organisation comes under the jurisdiction of a weaker regulator.

POLICY GUIDELINES ISSUED BY GOVERNMENT

Many important policy initiatives were taken by the Government of India, the most significant of which was the nationalisation of 14 commercial banks. These nationalised banks would be allowed to open urban bank branch provided it first opens four rural branches. Simultaneously, the concept of priority sector lending was developed and as a matter of policy it was formalised by RBI in 1972. Special programmes aimed at creating self-employment among the rural population started. This policy initiative had a significant impact and in just six years (by 1975), 10,882 rural and semi-urban branches of commercial banks had been opened1

.It was felt that the weaker sections in the rural areas can best be served by sepcialised institutions created for this purpose. These institutions need not be very large institutions in terms of capital, geographical coverage and staff, as they need to be "local" in character so that they and their staff can develop a bonding or a lasting relationship with the local population. Thus the Regional Rural Banks were born, with ownership of Central Government (50%) the State Government (15%) and a sponsoring commercial bank (35%). RRBs were started with a small capital base of only Rs. 25 lakh, generally operated in two or three districts, serving about 40 lakh people and were mandated, when created, to have only weaker sections of the population as their clients. Right from the day of its birth, every RRB was scheduled bank and fully regulated by the central bank of the country. Simply, RRBs were the first legal and fully regulated microfinance institutions (MFIs) set up anywhere in the world.

MAJOR GOVERNMENT POLICY GUIDE LINES

As per government policy, any financial institution that undertakes microfinance activities, but is not registered as a section 25 company, qualifies as a non-banking finance company and all related regulations apply. The regulation will include registration with the RBI, imposition of prudential norms and compulsory credit rating of deposit taking non-banking finance company.

Micro-finance institutions registered as section 25 companies can engage in

1 Source - The Journal of Indian Institute of Banking & Finance July-September 2009. P. 23

microfinance activity without registering with the RBI or obtaining its permission, microfinance activity is limited to business loan up to Rs. 50,000. Section 25 companies are not allowed to accept deposits.

With respect to the microfinance activities of a society, the registrar has no responsibility for prudential regulation, financial performance or solvency. The registrar can only intervene if there is a major dispute regarding the management of society, or if registrar suspects fraud against the society's creditors or other unlawful or unauthorised activities.

Microfinance in India can take many forms and have numerous applicable regulations and responsible regulators. In case of societies and trusts, microfinance activities are largely unregulated and unsupervised.

Non-banking finance companies and cooperatives are permitted to accept deposits. NBFCs must adhere to additional stringent regulations and cooperatives are only permitted to accept deposits from their members, not the general public.

No microfinance institution registered as NBFCs accept deposits because regulation requires that institution must obtain an investment grade rating, which no microfinance institution has obtained.

In the Finance Bill for the year 2005-06, the microfinance sector has been allowed access to ECB, provided they - (i) should have a satisfactory borrowing relationship for at least three years with a scheduled commercial bank authorized to deal in foreign exchange and (ii) would require a certificate of due diligence as 'fit and proper' status of the board / committee of management of the borrowing

entity from the designated AD.

All the entities taking up microfinance are allowed to receive grants and subsidised loans from domestic sources. However, in order to obtain grants from foreign sources, institutions must be registered with the Ministry of Home Affairs under the foreign contribution (Regulation) Act 1976.

Since, microfinance is largely recognised as a charitable activity, the entire grant meant to support the corpus fund of the society is exempted from taxation. Since private trusts taking up micro-finance activities are also subjected to the same provisions of Income Tax Act, their grant income may also be exempted from the taxation. This provision does not apply to cooperative societies, cooperative banks

and NBFCs.

Non Banking Finance Company (NBFCs) can obtain foreign capital in the form of equity subject to approval by the Foreign Investment Promotion Board (FIPB).

Cooperative Societies and Cooperative banks, with their distinctly for-profit constitution can, theoretically, obtain funds from capital market. NBFCs can also access capital markets subject to their adhering to prudential and reporting norms of RBI. Both types of institutions need to report their capital market transactions periodically to the central bank on prescribed formats.

All the legal entities involved in the business of microfinance are subject to some forms of disclosure :

(i) Societies and trusts are subject to annual disclosure.

(ii) Cooperative societies report to the registrar of cooperatives on prescribed

formats.

(iii) Cooperative banks; like NBFCs also need to disclose on such areas as the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR), details of public deposits, Asset Liability Management, (ALM), Income recognition and asset classification to RBI.

(iv) NBFCs, especially those accepting public deposits must make periodic disclosures on parameters like SLR, public deposits and access to capital markets, ALM and asset classification and income.

For consumer protection especially in the context of credit markets, existing mechanism are available in the domain of the micro-finance industry. These include - (a) existing consumer protection laws, (b) redressal mechanism (c) recovery and bankruptcy process and (d) education.

In the budget speech of finance minister in 2005, "the government intends to promote MFIs in a big way. The way forward is to identity MFIs, classify and rate such institutions and empower than to intermediate between the lending banks and the beneficiaries. Commercial banks may appoint MFIs as "Banking Correspondents" to provide transaction services on their behalf. Since MFIs require infusion of new capital, I propose to redesign the existing Rs. 100 crore Microfinance Development Fund as "Micro-Finance Development and Equity Fund", and increase the corpus to Rs. 200 crore. The fund will be managed by a board consisting of representative of NABARD, Commercial banks and professional with domain knowledge.

REGULATION OF MICRO-FINANCE INSTITUTIONS

The rapid growth of micro-finance sector and varied number of microfinance providers influencing the lives of millions of clients have necessitated the need for regulating the sector. In India microfinance is provided by a variety of entities. These include banks (including commercial banks, RRBs and Cooperative Banks), primary agricultural credit societies, SHGs linked to banks and MFIs that include NBFCs section 25 companies, trusts and societies as also cooperatives (Under MACS). Currently, banks and NBFCs fall under the regulatory review of Reserve Bank. Other entities are covered in varying degrees of regulation under the respective state legislations. There is no single regulator for thus sector. In this context for the orderly growth and development of the sector, the Government of India has proposed a legislation and formulated a Micro-financial Sector (Development and Regulation) Bill, 2007. The Bill envisaged NABARD to be the regulator and provides that all micro-finance organisations desirous of offering thrift services may get registered with NABARD.

STATE LEVEL REGULATIONS

Various requirements have been enacted to restrict and control microfinance practices at the state level. Most prominent state level regulations are the money lending act and the Andhra Pradesh Micro-Finance Institution (regulation of money lending) ordinance, 2010. The money lending Act, though originally intended to restrict the interest rates charged by money lenders, has been applied to micro-finance institutions in some states. The Andhra Pradesh ordinance was enacted in 2010 during the repayment Crisis in Andhra Pradesh, greatly restricting microfinance institutions by including measures such as by district registration, required collection near local government premises, and forced monthly repayment schedules. The another land mark of the Andhra Pradesh Government is the legislation enacted in 2010-11 which has brought the customer protection issues to the central stage. The legislation stipulated mandatory registration of MFIs, disclosure of effective interest rate to the borrowers, ceilings on the interest rates and strict penalties for coercive recovery practices.

ELEVENTH PLAN DOCUMENT OF THE GOVERNMENT

In the eleventh plan document, Government recognised the importance of strengthening SHG initiatives, policies and schemes which will simultaneously increase women's awareness, bargaining power, literacy, health, vocational and entrepreneurial skills, which will determine how SHGs may better serve the interest of poor women and suggest changes required in overall SHG policy frameworks. The Eleventh Plan recognised the importance of this issue and proposed a HLC (High Level Committee) to conduct a review of SHG related policies and programmes.

THE ANDHRA PRADESH MICROFINANCE / INSTITUTIONS

(REGULATION OF MONEY LENDING) ACT, 2010

Large-sized MFIs are operating in the state of Andhra Pradesh. Adverse developments were reported in the form of high interest charged by certain MFIs, coercive methods of recovery, poaching of SHGs by MFIs, multiple financing by the MFIs leading to over indebtedness by the poor households etc. In their backdrop, Government of Andhra Pradesh, in October, 2010, issued Andhra Pradesh Micro Finance Institutions (Regulation of Money lending) ordinance, 2010 to "Curb the undesirable operations of MFIs" in the state. The Act is applicable to NBFCs doing microfinance business in the state.

The act purported to ‘protect women SHG from the exploitation’ by MFIs in the state. The Act rolls out the following:

i) All MFIs operating in Andhra Pradesh shall within 30 days apply for

registration before the registering authority.

ii) Members of one SHG shall not be the member of more than one SHG.

iii) All loans by MFIs have to be without collateral.

iv) Maximum amount of interest was stipulated, the aggregate interest not to exceed the principal amount.

v) MFIs must display the rates of interest in their premises.

vi) No MFI shall extend further loan to an SHG where the SHG has an

outstanding loan from a bank.

vii) MFI shall not deploy agents for recovery.

viii) Repayments have to be made at the office of the Gram Panchayat or at the designated public place.

ix) Loan recoveries have to be made only in monthly installments.

x) Carrying business without registration and including a coercive recovery method would attract penalty by way of imprisonment.

MICRO-FINANCE INDUSTRY BILL, 2010

The ministry of finance in 2010 in this bill defined both eligible clients as well as micro-finance services - Eligible clients are defined as members of a SHG or any other group engaged in micro-finance, and belonging to one or more of the following categories,

i) Small farmers not owning more than two hectares of agricultural land.

ii) Landless cultivators of agricultural land including oral lessees, tenants or share croppers.

iii) Landless and migrant labourers.

iv) Artisans, micro entrepreneurs and persons engaged in small and tiny economic

activities.

v) Women and

vi) Any other such category that may be prescribed

This definition helps to distinguish between borrowers of MFIs and borrowers of banks with loan amounts comparable to those of MFI borrowers. However, the bill appears to be focused on micro-credit rather than micro-finance.

The bill does extend micro-finance services to include as follows -

i) Credit not exceeding Rs. 50,000 per individual for the purpose of agriculture, small enterprise and allied activities.

ii) Financial services through any agent as permitted by RBI.

iii) Life insurance, general insurance and pension services that have been approved by the authorities regulating these services.

iv) Any other service specified by NABARD regulations.

In the light of the policy on general financial inclusion, it seems to be reasonable that regulation will cover any entity, regardless of its legal structure, its financial services activities, and its process design whether group-based or individual based. RBI's DIRECTIVES & SUPPORT FOR EFFECTIVE

REGULATION OF MICRO-FINANCE PROGRAMMES IN INDIA

To have access to institutional credit by poor sections of the society, microfinance is one of the most sustainable and effective tool. Where microcredit refers to availability of loans in small quantities, microfinance has a broader meaning and it includes other financial services likes saving, insurance etc.

Realising the importance of credit in the socio-economic development process, the Reserve Bank of India has taken various steps in this regard and has encouraged banks to make timely and adequate finance available to poor for agriculture as well as allied activities making institutional credit and finance to the poor. Between 1950 and 1969 the emphasis was on the promoting of cooperatives. The nationalization of major commercial banks in 1969 marks a watershed. From this onwards, the focus shifted from the cooperatives as the sole providers of rural credit to the sole providers of rural credit to the multi agency approach. This also marks the beginning of the phenomenal expansion of the institutional structure in terms of commercial bank branch expansion in the rural and semi urban areas. For the next decade and half, the Indian banking scene was dominated by this expansion. Regional rural banks (RRBs) were setup in 1975 as low cost institutions mandated to reach the poorest in the credit deficient arrears of the country. RRBs are the only institutions in the Indian context which were created with a specific poverty alleviation microfinance mandate. During this period, Central Bank (RBI) intervened to enable the system to overcome the problems which were considered as discouraging the flow of credit to rural sector such as absence of collateral among the poor, high cost of servicing, geographically dispersed customers, lack of trained and motivated rural bankers etc. After this the concept of 'Priority Sector' gained importance in the late sixties to focus attention on the credit needs of neglected sectors and under privileged borrowers.

In 1987-90, NABARD conducted several studies of the MYRADA Model such as the transaction cost study. Based on the feedback, NABARD and RBI took three policy decisions:-

a) Banks could lend to groups at low traction cost, which would account for priority sector lending.

b) In 1992 RBI agreed to give one loan to the group. Emphasis was on giving the group, the freedom to decide how best to distribute the loan amount.

c) Banks could lend to unregistered groups as long as they function as registered society.

In 1993, the RBI also allowed SHGs (registered or unregistered) to open saving accounts in banks. Facility of availing bank services from all nationalized banks was a major boost to the movement.

SUPPORTIVE POLICIES OF RBI FOR LINKAGE PROGRAMMES

With the view of developing supplementary credit delivery mechanism to reach the poor in cost-effective and sustainable manner, NABARD introduced in 1992 a pilot project for linking 500 SHGs. The self help group - bank linkage programme (SLBP) was further extended to Regional Rural Banks and cooperative banks in 1993 and is now permitted by the RBI as a component of priority sector lending. RBI extending and implementing the linkage programme. The supportive polices of RBI are :-

i. Interest rates of banks to the micro-credit institution or by the micro-credit institutions to SHG or their members deregulated.

ii. Complete freedom to banks to choose their models.

iii. Micro-credit reckoned as a part of micro-credit partner for bankers.

iv. Freedom in designing of lending and saving products.

v. Maximum flexibility provided in lending norms.

vi. Making micro-credit an integral part of bank corporate credit plan.

vii. Mobilisation of savings.

This activity of RBI paved the way for socio-economic empowerment of women and build confidence in them.

RBI has been making efforts to give a fillip to micro-finance initiatives through creating and enabling environment. It is now looking into issues relating to - structure and sustainability and capacity building of micro-finance institutions.

RBI has said that as per current policy, Foreign investment in securitisation of micro-finance projects" activity did not fall under any of the specified 19 NBFC's activities which is planning to open up foreign investment. The Government will accordingly have to draft a fresh policy to allow FDI in microfinance securitisation. Securitising the loans given by domestic micro-finance institutions was expected to generate more liquidity for the market for small finance. Micro-finance initiatives have shown that banking with the poor is a viable proposition. Micro-credit has been hailed as the best method of creating. NABARD has been playing a catalytic role in terms of promotional support to NGO's and also in nurturing quality SHGs.

OTHER POLICY INITIATIVES BY RBI

Several policy initiatives have been taken by the Reserve Bank of India with a view to give a further fillip to the microfinance movement in India. A summary of major initiatives is being presented as follows:

1) The Self Help group (SHG) Bank Linkage Programme A working group, under the chairmanship of Shri S.K.Kalia (Managing Director, NABARD) was set up by the RBI in 1994. The group came up with wide range of recommendations on SHG and bank linkage as a potential innovation in the area of banking with the poor. According to it, “Micro credit has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi- urban and urban areas for enabling them to raise their income levels and improve their living standards”. Micro credit institutions are those, which provide these facilities. As a follow up of the recommendations of the working group, banks were advised in April 1996 as under.

a) SHG lending as Normal Lending Activity: Banks were advised to include SHG Linkage in their corporate strategy/ Plan, training, curriculum of their officers and staff and to implement it as a regular business activity and monitor and review it periodically.

b) Separate segment under Priority Sector: Banks should report their lending to SHG as a separate dept, via, “Advances to SHG” irrespective of the purpose for which the members of SHG’s have been disbursed loans. Lending to SHGs should be treated as part of the lending to weaker section.

c) Inclusion in Service Area Approach: Banks will identify branches having potential for linkage and provide support to them and include SHG lending within their Service Area Plan, But SHG Linkage is a credit innovation and not a targeted credit programme.

d) Margin and security Norms: According to the operational guidelines of NABARD, SHGs may be sanctioned saving linked loans by bank in the ratio of 1:4 (i.e. saving: loan) this ratio can be beyond the limit of 1:4 in case of matured SHGs.

e) Documentation: Keeping in view the nature of lending and status of borrowers, banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse credit by delegating adequate sanctioning powers to branch managers. The loan application forms procedures and documents should be made simple to provide prompt and hassle free credit.

f)Training: Considering the requirement and magnitude of training needs of bank officers / staff both at field level and controlling office level, banks may initiate suitable steps to internalize the SHG’s linkage project and organize short duration programmes for the field level functionaries.

g) Monitoring and Review of SHG Lending: Due to emerging potential of SHGs, it is decided to review their progress at the state level banker’s committee (SLBC) and by banks at regular intervals. A progress report may be sent to NABARD (Micro credit innovations department) Mumbai in prescribed format on a half yearly basis as on 30 September and 31st March each year.

h) Presence of defaulters in SHGs: The defaulters by a few members of SHG to the financing bank should not ordinarily come in the way of financing SHGs by banks.

2) NBFCs engaged in Micro Financing Activities

As NBFCs have played significant role in the Indian Financial sector in providing outreach to the small clients. With the objective of integrity, RBI brought them under its regulatory aim by way of amendment of RBI Act, 1934 in 1996. This required mandatory registration of co's undertaking financial services with the RBI, compulsory credit rating of deposit taking NBFCs and their compliance to prudential norms. As per section (45-Ia) of the Banking Regulation Act, no NBFC can commence or carry on the business without obtaining certification of registration form the RBI and having net owned funds (NOF) (Share holders equity + internally generated reserves) of Rs. 20 million. In addition to the requirements of RBI, All NBFC's have to comply with the provisions of Companies Act relating to Board of Directors, share capital mgmt structure, audit, maintenance and publication of books of accounts and general conduct etc. Important prudential norms to be complied include Capital Adequacy Ratio (CAR) based on the risk weight of assets (15%), accounting standard, asset classification, provision for bad and doubtful debts, disclosure in balance sheet ceiling on concentrate of credit / investment, etc. Not less than 15% of their deposits should be invested in specified securities and approved Govt. securities. NBFCs are required to notify RBI of their intention to open branches. Thus RBI is empowered to give rigorous policy prescriptions and regulatory directions to NBFCs having requisite (NOF) and accepting public deposits.

3) Opening of Saving Bank Accounts

To further promote the SHG momentum in the country, RBI advised the banks in 1998 that SHGs which were engaged in promoting saving habits among their members would be eligible to open savings bank accounts and that such SHGs need not necessarily have availed of credit facilities from banks before opening savings bank accounts.

4) Interest Rates

Subsequent to the monetary and credit policy announcement for the year 1999-2000 banks were also advised that interest rates applicable to loans given by banks to micro credit organisations or by the micro credit organisations to SHGs / member beneficiaries would be left to their discretion.

RBI's 2004 Master Circular on Micro Credit states that interest rates on loans from banks to MFIs or from MFIs to SHGs and individuals are left to the discretion of the loaning agency.

Table 3.1: Comparison of Rates of Various Sources

Various Sources Quoted interest Rate Effective interest rate incl. transaction costs Details

Bank loans to SHGs 12% - 13.5% 21% - 24% Number of visits to banks, compulsory savings and costs incurred for payments to animators/staff/local leaders MFI loans to micro borrowers 15% - 24% 15% - 24% No transaction costs except time spent in meetings

Moneylenders, landlords, trader 36% - 120% 48% - 150%

Source: RBI, 2004.

5) Mainstreaming and enhancing outreach

In April 1999, the word microcredit was used for the first time in the credit policy. The statement said, "Micro-credit Institutions are important vehicles for delivery of credit to self employed persons, particularly women in rural and semi- urban areas."And further: "A special cell was set up in RBI in order to liaise with NABARD and microcredit institutions for augmenting the flow of credit to this sector. The time frame for the cell was one year and its proposals were given the highest attention." The credit policy drew a distinction between small loans given by banks and the loans given to MFIs for on-lending.

The banks did not have a level playing field, but were possibly happy to outsource small credit to MFIs. This opened bank finance to the MFIs, who were largely dependent on donor money. The recommendations made by the Task Force were being 'processed' by NABARD in consultation with RBI and Government as appropriate. The mid-term review reiterated the importance of MFIs and asked banks to include microcredit in their corporate strategy to be reviewed on a quarterly basis. Banks were advised to follow the under noted guidelines in Feb, 2000 issued by RBI.

i) The banks may formulate their own model(s) or choose any intermediary for extending micro credit. They may choose suitable branches/pockets/ arrears where micro credit programmes can be implemented. Micro credit extended by banks to individual borrower directly or through any intermediary would be reckoned as part of their priority sector lending.

ii) Banks can deal with micro credit organizations having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow up.

iii) Banks may prescribe their own lending norms for loan and savings products and the related terms and conditions including the size of the loan, unit cost, unit size, maturity period, grace period, margins etc. to provide maximum flexibility in regard to micro lending. Such credit should, therefore cover not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

iv) Micro credit should be included in branch credit plan, block credit plan and state credit plan of each bank. Micro credit should also form an integral part of the bank's corporate credit plan and should be reviewed at the highest level on a quarterly basis.

v) A simple system requiring minimum procedures and documentation is a precondition for augmenting flow of micro credit. Hence, banks should make arrangements for expeditiously sanction and disburse micro credit by delegating adequate sanctioning powers to branch managers.

6) Exemption for NBFCs

Several non-banking finance companies (NBFCs) and residuary non-banking companies (RNBCs) also started entering the micro finance sector, gradually recognizing the potential in the sector. In January 2000, all NBFCs and RNBCs were advised by the Reserve Bank that those NBFC's which were engaged in micro financing activities, Licensed under section 25 of the companies Act, 1956 and which were not accepting public deposits were exempted from the purview of Sections 45- IA (registration), 45-IB (Maintenance of liquid assets) and 45-IC (transfer of a portion of profits to Reserve Fund) of the Reserve Bank of India Act, 1934.

7) Delivery Issues

The Reserve Bank constituted four informal groups in October 2002 to examine various issues concerning micro finance delivery. On the basis of the recommendations of the groups and as announced in Paragraph 55 of the Governor's Statement on mid-term Review of the Monetary and Credit Policy for the year 2003- 2004, banks have been advised as under:-

i) Banks should provide adequate incentives to their branches in financing the Self Help Groups (SHGs) and establish linkages with them, making the procedures totally flexible to suit local conditions.

ii) The group dynamics of working of the SHGs may be left to themselves and should neither be regulated nor formal structures imposed or insisted upon.

8) ECBs under Automatic Route

Based on the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman: Prof. V. S. Vyas), which submitted its final report in June 2004, it was announced in the Annual Policy Statement for the year 2004-05 that in view of the need to protect the interest of depositors, MFIs would not be permitted to accept public deposits unless they complied with the extant regulatory framework of the Reserve Bank. However, as an additional channel for resource mobilisation, the Reserve Bank in April 2005 enabled NGOs engaged in micro finance activities to access the external commercial borrowings (ECBs) up to US$ 5 million during a financial year for permitted end use, under the automatic route.

9) Services of Intermediaries through BF/BC Models

In order to examine issues relating to rural credit and micro finance, an internal group (Chairman: Sh. H.R. Khan) was set up in 2005. Based on the recommendations of the group and with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, banks were permitted in January, 2006 to use the services of NGOs/SHGs, MFIs (other than NBFCs) and other civil society organisations as intermediaries in providing financial and banking services through business facilitator and business correspondent models.

10) Constitution of Coordinated forum

All Regional Directors of the Reserve Bank were advised in April 2006 that whenever issues relating to micro finance were noticed in the areas under their jurisdiction, they may offer to constitute a coordination forum comprising representatives of SLBC convener banks, NABARD, SIDBI, State Government officials, and representatives of MFIs (including NBFCs) and NGOs/SHGs to facilitate discussion on the issues affecting the operations in the sector and find local solutions to the local problems.

11) Banking Correspondents

In January 2006, the Reserve Bank permitted banks to utilize the services of NGOs, MFIs (other than NBFCs) and other Civil Society organization as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models. The BC model allows banks to do 'cash in cash out' transactions at a location much closer to the poor while relying on the financial strength of the bank to safe guard the deposits. Union Finance Minister in the Union Budget 2008-2009, made the announcement that Banks were permitted to engage retired bank employees, ex-servicemen and retired government employees as business correspondents (BCs) with effect from April 24, 2008.

12) Financing of MFIs by banks

In May, 2006, A Joint fact finding study on microfinance conducted by Reserve Bank and a few major banks made the following observations:

i) Some of the microfinance institutions (MFIs) appear to be focusing on relatively better banked areas, Competing MFIs were operating in the same area, resulting in multiple lending and overburdening of rural households.

ii) The MFIs were disbursing loans to the newly formed groups within 10-15 days of their formation, in contrast to the practice obtaining in the SHG-Bank Linkage programme which takes about 6-7 months for group formation / nurturing / handholding. As a result, cohesiveness and a sense of purpose were not being built up in the groups formed by these MFIs.

iii) Banks, as principal financiers of MFIs do not appear to be engaging to ensure better transparency and adherence to best practices. In many cases, no review of MFI operations was undertaken after sanctioning the credit facility. In Nov, 2006, these findings were brought to the notice of the banks to enable them to take necessary corrective action where required.

13) Total Financial Inclusion and Credit Requirement of SHGs

Attention was invited to Paragraph 93 of the Union Budget announcement made by the Honourable Finance Minister for the year 2008-2009 wherein it has been stated as under:-

It was required by Honourable Finance Minister in budget of year 2008-2009 that Banks will be encouraged to embrace the concept of Total Financial Inclusion.

Government will request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, (a) Income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping, in April 2008.

14) Bank Loans to MFI for on Lending

Hinging on the recommendations of Malegam committee, RBI on May 3, 2011 released its circular on regulation after deciding to consider micro finance sector as a separate category. Banks were advised to meet the entire credit requirements of SHG members, as envisaged therein.

i) Most significant was the Cap on interest rate, MFIs were not allowed to charge interest rate beyond 26% on reducing balance basis with a peak up of not more than 12%.

ii) Bank credit to MFIs extended on or after April 2011 for on Lending to individuals and members of SHGs/JLG was covered under priority sector. Advance provided not less than 85% of total assets of MFI (other than cash balances with banks and financial institutions, government securities and money market instruments) are in the form of "qualifying assets". In addition aggregate amount of loan, extended for income generating activity should not be less than 75% of the total loans of MFIs.

iii) A Qualifying Asset" shall mean a loan given by MFI, which satisfies following criteria:-

a) The loan is sanctioned to the borrower whose household annual income in rural areas is less than 60,000/- and in non-rural area it is less than 120,000/- b) Loan does not exceed 35,000/- in first cycle and 50,000/- in the subsequent cycles.

c) Total liability of the borrower is not more than 50,000/- d) Loan exceeding 15,000 will have minimum tenure of 2 yrs with the option of prepayment on delayed payment without penalty.

e) Loan is without collateral, repayable by weekly fortnightly or monthly installments with borrower's choice.

iv) The Loan is without collateral and is routed preferably through SHG / JLG so that social and peer pressure for repayment replaces arm-twisting tactics.

v) Only three components are to be included in pricing of loans namely, 1% of the gross loan amount as processing fee, the interest charge and actual insurance premium. Administrative charges for insurance should adhere to IRDA guidelines.

vi) The banks should obtain from MFI, at the end of each quarter, a chartered Accountants certificate which will certify that all the above mentioned conditions are followed.

15) REVISED REGULATORY NORMS FOR MF-NBFCs, 2012

RBI decided to make certain modifications in the directions issued on Dec. 02, 2011. These revised regulatory framework was issued on Aug 42012 by RBI. These modifications were as under:-

i) The Central Bank has done away with the 26% Cap on lending rates due to the dynamic nature of the cost of funds for microfinance but has said that margins will be capped. The maximum variance between the minimum and maximum interest rate cannot exceed 4%. RBI also cut the minimum amount of money to be lent to income generating assets to 70% from 75%.

ii) New entities going to start NBFC-MFI need a minimum fund of Rs. 5 Crore, while existing ones should have net owned funds of Rs. 3 Crore by March 31, 2013 and Rs. 5 Crore by March 31, 2014. In case of failure to comply with these norms, loans to the microfinance sector will be restricted to 10% of total assets.

NBFCs in the North Eastern region will have to maintain net owned funds of Rs. 1 Crore by March 31, 2013 and Rs. 2 Crore by March 31, 2014.

iii) Income generation activities should constitute at least 70% of the total loans of the MFI so that the remaining 30% can be allocated for other purpose such as housing repairs, education, medical and other emergencies.

16) REVISED ECB POLICY UNDER AUTOMATIC ROUTE (DEC, 2011)

Considering the specific needs of the micro finance sector, the existing ECB policy has been reviewed in consultation with the Government of India and it has been decided that hence forth MFIs may be permitted to raise ECB up to USD 10 million or equivalent during a financial year for permitted end-uses, under the Automatic Route. Detailed guidelines on ECB for MFIs with necessary safeguards are set out below. The following MFIs engaged in micro finance activities shall be considered as eligible borrowers to avail of ECBs:-

i) MFIs registered under the Societies Registration Act, 1860;

ii) MFIs registered under Indian Trust Act, 1882;

iii) MFIs registered either under the conventional state-level cooperative acts, the national level multi-state cooperative legislation or under the new state-level mutually aided cooperative acts (MACS Act) and not being a co-operative bank;

iv) Non-Banking Financial Companies (NBFCs) categorized as 'Non Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) and complying with the norms prescribed as per circular DNBS.CC.PD.No. 250/03.10.01/2011- 12 dated December 02, 2011; and

v) Companies registered under Section 25 of the Companies Act, 1956 and involved in micro finance activity. MFIs registered as societies, trusts and co-operatives and engaged in micro finance should have a satisfactory borrowing relationship for at least 3 years with a scheduled commercial bank authorized to deal in foreign exchange; and would require a certificate of due diligence on `fit and proper' status of the Board/Committee of Management of the borrowing entity from the designated Authorized Dealer (AD) bank. ECB funds should be routed through normal banking channels. NBFC-MFIs will be permitted to avail of ECBs from multilateral institutions, such as IFC, ADB etc. / regional financial institutions/international banks / foreign equity holders and overseas organizations. Companies registered under Section 25 of the Companies Act and engaged in micro finance will be permitted to avail ECBs from international banks, multilateral financial institutions, export credit agencies, foreign equity holders, overseas organizations and individuals. Other MFIs will be permitted to avail ECBs from international banks, multilateral financial institutions, export credit agencies, overseas organizations and individuals.

MICROFINANCE BILL

The Microfinance Sector (Development and Regulation) Bill-2007 was introduced in Lok Sabha on March 20, 2007 as a first step in trying to regulate the sector. The preamble of the Microfinance Sector Development and Regulation Bill- 2007 sets the objective, "to provide for promotion, development and orderly growth of the micro financial sector in rural and urban areas to facilitate universal access to integrated financial services by the population not having banking facility and thereby securing prosperity of such areas and regulation of microfinance organisations (MFO) not being regulated by any law for the time being in force and for matters connected therewith or incidental thereto".1 The bill has at least four positive features. (i) the bill permits MFOs to accept savings from members subject to certain conditions. An 1 Source: MF Development and Regulation, By B. Yerram Raju, Hyderabad. Yojna, January 2008, P. MFO which has been in existence for at least three years having net owned funds of at least Rs. 0.5 million and satisfactory management can obtain registration from NABARD and therefore offer saving services. The non-availability of savings has been a major gap in the services provided by the sector. (ii) The Bill provides for mandatory registration and periodic report submission by all MFOs seeking to accept deposits. (iii) It provides for inspection of MFOs by the regulatory authorities in case of complaints of harmful practices (iv) The bill does not introduce interest rate caps which could have been damaging for the sector. But several provisions in the bill invite serious concern. It speaks of the sector and affirms to regulate only the MFOs. It excludes from its preview HUFs, NBFCs, Section 25 companies, scheduled banks including RRBs presumably because they are already being regulated by the RBI. The Bill recognizes only members of the group formed for microfinance purpose as clients. The bill also includes among others the small farmers of two hectares and less and women in general in the eligibility category. The exclusion of MFIs from the preview of the bill gives the advantage of having access to better off client bases with larger profit margins. Thus there is a danger of the institutions subject of regulatory vigor of the bill becoming unviable in the long run.

This bill fails to perform the balancing act of defining needs of its target customer base, perhaps invite regulatory arbitrage by financial players seeking to 'pass' as microfinance providers. Section 2 (e) (i) is silent about the societies that are registered / incorporated under various state laws that have been enacted by several states for registration of societies in their respective states (e.g. Rajasthan, 1958, Karnataka 1960, West Bengal 1961, Madhya Pradesh 1973, Tamil Nadu 1975, Meghalaya 1983, Andhra Pradesh 2001). It means that societies in these states are excluded from the preview of this bill, since the societies Regulation Act 1860 is not applicable in these states. It was realised on the basis of the above reasons that the Bill-2007 in the current form does not satisfy either development or regulatory aspects and hence in order to address the key issues, necessary steps were taken to modify the bill appropriately and adequately in 2011. Consequently a new Microfinance Institutions Development and Regulations Bill was enacted and was released on May 22, 2012.

MICRO FINANCE INSTITUTIONS (DEVELOPMENT AND REGULATIONS) BILL 2011

The Micro Finance Institutions (Development and Regulations) Bill 2012 is an updated version of an earlier Bill drafted in 2007. The bill had been released on May 22, 2012 after many changes to consider the most recent RBI regulation. The Bill addresses all legal forms of microfinance institutions, providing a comprehensive legislation for the sector. New regulation includes:-

Designation of RBI as the sole regulator for all microfinance institutions.

Micro credit facilities not exceeding Rs. 5 Lakh in aggregate or with RBI specification Rs. 10 Lakh to each individual

Central Govt. will create a micro finance Development Council with officers from different ministries and departments for the development of MFIs.

Central Govt. will also form state Micro Finance Councils to coordinate the activities of District Micro Finance Committees. Bill requires that all MFI should obtain a certificate of registry on from RBI after having net owned funds of Rs. 5 Lakh.

Each MFI will create a reserve fund by appropriating the fixed percentage (specified by RBI) from net profit.

MFI will provide an annual balance sheet and profit and loss account for audit to the RBI. Return of MFI will give details about any change in corporate structure, such as shut down, amalgamation, takeover etc.

RBI can issue the directions to MFI regarding extent of assets deployed in Micro finance activities, ceilings on loans, limit of annual percentage, rate charged, limit on the margin etc.

RBI will create the Micro-Finance Development Fund to provide loans, grants andother micro credit facilities to any MFI.

RBI is responsible for redressal of grievances for beneficiaries of micro finance services.

RBI can impose a penalty up to Rs. 5 Lakh for any contravention of the Bill's provisions and No civil court can challenge.

Bill gives the central govt. authority to delegate certain RBI powers to the NABARD or any other central Govt. agency.

The central Govt. has the power to exempt certain MFIs from the provisions of the bill.

The designation of RBI as the sole regulator would be a positive step forward for the Micro Finance sector.

NABARD AS REGULATOR OF MICROFINANCE SERVICES

Despite the policy efforts of Government of India and RBI, gap remains in the availability of financial services in rural areas. The dependence of rural poor on money lenders continues, especially for meeting emergent requirements. Therefore, Government of India established NABARD in 1982 in accordance with the provisions of the NABARD Act, 1981 as a development bank for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities in rural socio-economic development and secure prosperity of rural areas and for matters connected thereto.

For over three decades, NABARD as a national level apex institution has been playing a pro-active role in addressing important issues of the rural economy. It has been providing refinance to cooperative banks, RRBs, scheduled Primary Urban Cooperative Banks (PUCBs) and Agricultural Development Finance Companies (ADFCs) for supplementing them resources for credit flow to the agriculture and Rural Sector. NABARD has also provided loans to State Governments for their infrastructure projects under Rural Infrastructure Development Fund (RIDF). However, in the current global economic scenario, time is ripe for NABARD to review its strategies and policies with regard to micro financial sector in the light of the need and policy of government over the last few years. Consequently in 2007, the micro-financial sector (development and regulation) bill enacted by the Government of India, designated National Bank for Agriculture and Rural Development (NABARD) as the regulator for the micro-finance sector.

REGULATORY FUNCTIONS

1. The Banking Regulation Act, 1949 empowers NABARD to undertake inspection of the RRBs and Co-operatives.

2. Any RRB or Co-operative banks taking permission from RBI for opening new branches will have to obtain recommendation of NABARD.

3. RRBs and Co –operatives are required to file returns and documents with the NABARD.

It has been entrusted with the statutory responsibility of conducting inspections of the State Cooperatives Banks, District Central Cooperative Banks and Regional Rural Banks under the provisions of The Banking Regulation Act , 1949. In addition, it conducts periodic inspections of state level co-operative institutions on the voluntary basis.

NABARD'S POLICIES FOR MICRO FINANCE ACTIVITIES AND REGULATION

The term "micro-finance" has been given a working definition by the Task Force on Supportive Policy and Regulatory Framework for Micro-Finance set up by NABARD in November 1998 as: "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards". It is, however, understood that the MFIs provide other non-credit services such as capacity building, training, marketing of the products of the SHGs, microinsurance, etc. In this background, the following considerations are relevant:

First, micro-finance would be seen to be a broader concept than micro-credit. Second, there is a recognition in the Annual Policy Statement of the RBI, 2005- 06, to review the existing practices to align them with the objective of financial inclusion in regard to banking services. This underlines the Importance of the micro-finance movement in addressing the issue of financial exclusion.

Third, the increasing size and growth of MFIs seem to warrant a clearer policy framework to cover operations in financial services in addition to credit, in respect of both bank- and NABARD-led micro-finance through SHGs and micro-finance institutions.

Fourth, the delivery of non-credit financial services, such as insurance and mutual funds by micro finance institutions seems to be possible but as a pre-condition, there is a need for a clear framework for the approach of different regulators to these non-bank financial services by MFIs. Fifth, the organizational forms of micro-finance institutions appear varied, though the activities may in some cases include non-financial services. This makes them subject to differing legal frameworks as per the organizational form. Sixth, different State

Governments take varying approaches to the microfinance institutions –including subsidising interest rates. The nature and spread of microfinance movement also differ significantly across states. Seventh, as per information available, a significant part of the current microfinance activity is related to credit and the absence of a conscious policy thrust in regard to non-credit related financial services. Eighth, developments in technology seem to provide a window of opportunity to reduce the transaction costs and thus enable microfinance to be commercially viable and profitable activity.

Finally, the Finance Minister in his Budget Speech for 2005-06 made a reference to the possibility of a suitable legislation in this regard.

Broadly, the approach of RBI has been to emphasise the informality of microfinance and focus on the developmental aspects. The regulatory dispensation put in place by the RBI seeks to enable enhanced credit flow from banks through MFIs 85 and could be further refined by RBI, as necessary. On the suggestion for bringing the micro-finance entities under a system of regulation through a separate legislation, the RBI felt that microfinance movement across the country involving common people has benefited immensely by its informality and flexibility. Hence, their organization, structure and methods of working should be simple and any regulation will be inconsistent with the core-spirit of the movement. It was also felt that ideally, the NABARD or the banks should devise appropriate safeguards locally in their relationship with the MFIs, taking into account different organizational forms of such entities. In any case, if any statute for regulation of MFIs is contemplated, It may be at the State-level with no involvement of the RBI as a banking regulator or for extending deposit-insurance.

The National Bank for Agriculture and Rural Development (NABARD) set up a task force on Supportive Policy and Regulatory Framework for Microfinance in the late1998. This task force found microfinance an emerging activity to be nurtured. It was ahead of its times in calling for registration, and regulation through a selfregulatory organization (SRO). Pending an SRO, the task force recommended that RBI should put an interim regulatory framework. At the same time, Sa-Dhan, the association representing diverse non-governmental and private sector players in microfinance, was established. Sa-Dhan was expected to evolve as the voice of the industry and a SRO. This task force had a profound and simultaneous impact on policy making.

NABARD has adopted CAMELSC approach (Capital, Asset Quality, Management, Earnings, Liquidity, Systems and Compliance) with regard to inspection process and supervisory rating of RRBs and Cooperative Banks. NABARD, apart from making suitable recommendations to RBI for licensing and regulatory action and providing inputs from time to time, has evolved and implemented suitable supervisory best practices pertaining to RRBs and Cooperative Banks.

RURAL CREDIT AND MICRO-FINANCE MONITORING COMMITTEE FRAMED BY NABARD

NABARD has designed a very thorough grading system for NGO. The agreement between the NGOs and NABARD stipulates that the NGO should set up a project monitoring and implementation committee, to co-ordinate their SHG promotion activity with the banks, and also to enable NABARD to monitor progress. These committees do not always meet regularly, and it is very difficult for one NABARD District Development Manager (DDM), who may cover an area with a population of two million people, to be sure that every SHG which is promoted conforms to its social criteria. In this case, the 'social' quality of the groups has to be very carefully monitored.

ROLE OF NABARD

NABARD established and accredited with all matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural India with a vision to facilitate sustained access to financial services for the reached poor in rural areas through various microfinance innovation in a cost effective and sustained manner. NABARD has been working as a catalyst in promoting and linking more and more SHGs to the banking system. The pioneering efforts at this direction were made by NABARD. In 1991-92 a pilot project for linking about 500 SHG with banks was launched by NABARD in consultation with the RBI. It is considered as a landmark development in banking for the poor. On the recommendation of the NABARD, RBI advised that the banks financing to SHGs would be covered as a part of their lending to weaker sections. Banks were advised to consider lending to SHGs as a part of their main-stream credit operations, to identity branches having potential for linkage with SHGs and provide necessary support services to such branches. Further, it was decided that NABARD would continue to provide refinance to banks under the linkage projects at the rates stipulated from time to time. NABARD has taken an initiative to increase an access to credit for the poor, particularly SC/ST, although more subsidisation as well extension to all ages in its various schemes has been covered. NABARD has been providing refinance to Cooperative Banks Commercial Banks, RRBs, Scheduled Primary Urban Cooperative Banks (PUCBs) and Agricultural Development Finance Companies (ADFCs) for supplementing their resources for credit flow to the agriculture and rural sector. NABARD has also provided loans to the State Governments for their infrastructure projects under rural infrastructure Development Fund (RIDF). The RIDF projects have accelerated the rate of development in the rural areas with ‘Downstream effects’ attracting further private investments and leading to spurt in economic activities. SHG, Bank linkage programme was started on the basis of recommendations of S.K. Kalia Committee. The pilot project was launched by NABARD after extensive consultations with Reserve Bank, commercial banks and non Governmental Organisations (NGOs) with the following objectives:

(i) To evolve supplementary credit strategies for meeting the credit needs of the poor by combining the flexibility, sensitivity and responsiveness of the informal credit system with the strength of technical and administrative capabilities and financial resources of the formal credit institutions;

(ii) To build mutual trust and confidence between the bankers and the rural poor; and

(iii) To encourage banking activity, both on the thrift as well as on credit sides, in a segment of the population that the formal financial institutions usually find difficult to cover.

The Pilot project was designed as a partnership model between three agencies viz. the SHGs, Banks and Non Governmental organizations. It also provided technical support and guidance to the agencies participating in the programme for selecting SHGs who had followed the following Criteria:

a) The group should be in existence for at least 6 months.

b) The group should have actively promoted the savings habit.

c) Groups could be formal (registered) or informal (unregistered)

d) Membership of the group could be between 10 to 25 persons.

The pilot project envisaged linking of only 500 SHGs to the banks. By the end of March 1993, 225 SHGs were actually linked. The figure reached to 625 in 1994 and 836 by the end of 2001 respectively. The pilot project was a success. NABARD refinances the financial institutions engaged in micro-finance, to the extent of actual disbursement. NABARD, SIDBI are bulk financiers, who cleverly leverage resources obtained from a variety of resources (donors, government, market) for rural finance including microfinance. The data shows that NABARD has played a key role not only in promoting SHGs but also in standing behind the SHG Bank Linkage Programme. Under the SHG Bank linkage programme of NABARD, about 560 financial institutions, cooperative, RRBs and Commercial Banks have participated across the country. Under SBL programme the financial institutions have financed about 10,00,000 SHGs which are promoted either directly by them or by the NGOs. NABARD provides refinance to these financial institutions for on lending to SHGs.

RECOMMENDATIONS OF VARIOUS COMMITTEES AND WORKGROUPS

A survey of rural credit in 1950-51 showed that cooperatives could meet barely 3.3 percent of the total credit requirement of farmers while money lenders accounted for 93 percent of credit needs of the farmers. The All India Rural Credit Survey Committee (1954) stated - "Cooperation has failed, but cooperation must succeed". On the recommendations of this committee, the RBI took a series of measures to strengthen cooperative institutions. The All India Rural Survey Committee (1969), recommended the adoption of "Multiagency approach" to finance the rural sector. The government accepted that rural credit could not be met by cooperative societies alone and the commercial banks should play an important role in the rural sector. This was a reason for the takeover of 14 leading banks in 1969. This was followed by setting up of Regional Rural Banks (RRBs) in 1995. The working group under the Chairmanship of C.E. Kamata (1976) identified the problem of existence of a number of agencies relating credit in a common area of operations and disbursing credit in an uncoordinated manner resulted in multiple financing, over-financing, under-financing, financial indiscipline and diversion of scarce resources to unproductive purposes.

RECOMMENDATIONS OF KHAN WORKING GROUP (2004)

‘Khan working Group’ was constituted by RBI (2004), to examine issues relating to Rural Credit and Microfinance. The report pinpointed that there are several reasons for the rural poor remaining excluded from banking system. These are-high transaction cost at client level, cumbersome documentation and procedures at the formal sector, lack of awareness, small size of loans, availability of doorstep services from informal sector and indifference of the formal banking system.

The working group broadly recommended that.

i) Business Correspondent Model to be implemented for expansion of banking outreach.

ii) A separate and exclusive regulatory supervisory framework for MFIs may not be required for the present, as the major players undertaking microcredit are well regulated.

iii) Non-deposit taking MFIs with help of SIDBI and NABARD may attempt for self regulation.

iv) Setting up of national microfinance information bureau.

v) Direct finance facilities by MFIs from NABARD.

vi) Rating of MFIs.

vii) Capacity building in MFIs.

viii) Extending outreach through ICT.

The group said it may not be appropriate to fix any ceiling on interest rates. However, it cautioned the cost of credit should not be usurious. The group suggested that comprehensive regulatory framework may be taken up for a review at a later stage. A certain recommendations of the Khan working group to expand the outreach of banking in rural sector have been implemented.

RECOMMENDATIONS OF VEDA COMMISSION (2004)

Veda Commission was appointed by RBI in August 2003 for identifying the issues relating to

(i) Structure and sustainability (ii) funding (iii) Regulations

(iv) Capacity building in the areas of micro-finance.

The Regulatory issues have been classified under four tiers.

Those pertaining to SHGs.

Those pertaining to NGOs.

Those pertaining to micro credit institutions MCIs.

Those pertaining to microfinance institutions MFIs.

Recommendations for SHGs1

i) SHGs may not lend outside the groups.

ii) SHGs may decide on some cap on borrowings per member.

iii) Group to decide on apportioning of income earned during a year.

iv) Pass-books may be issued to each SHG member.

v) A rating matrix by lender to assess SHGs while making credit decisions to be made mandatory.

vi) The rating exercise to be done by the lender (NGO/MFI/Bank) on a yearly basis to ensure no stoppage in the ratings.

Recommendations for Micro-Finance Institutions

i) Minimum entry - level capital requirement for micro-finance NBFCs which are involved exclusively in financing SHGs be reduced to Rs. 25 lakhs from 1 Source : The Journal of Indian Institute of Banking & Finance, July-Sept. 2007, P. 31. 92 Rs. 200 lakhs at present. However, such NBFCs may not be allowed to accept deposit until their capital is raised to Rs. 200 lakhs.

ii) Capital adequacy norms should be more stringent compared to formal financial institutions as all the loans provided by MFIs are collateral free loans. A minimum capital adequacy ratio (CAR) of 10% of the risk-weighted

assets is suggested.

iii) MFIs/NBFCs to maintain separate books of accounts for microfinance activity. Financial statement should be in a standard proforma with adequate transparency and disclosures.

iv) All incomes and interest on loans should be recognized on accrual basis. All accounts, where interest / installment are overdue for more than 45 days should be treated as NPAs.

v) The organisation should provide adequate provisioning to take care of loan losses to begin with, it should be 2% on the standard assets. Exemption to be provided under IT Act for reserves created for the loan loss. These guidelines to be more stringent when compared to formal institutions as all the loans provided by NBFCs are collateral free loans.

RECOMMENDATIONS OF WORK GROUP OF RBI (2002)

RBI constituted four informal groups to further stimulate the process of constructive dialogue amongst the major players in the area of micro finance. Therecommendations of these groups are as follows:-

i) Group recommended creation of an autonomous and professionally managed National Micro Finance Equity fund with an initial subscription of RS. 200 Crore. This fund will be used for weaker section lending under the priority 93 sector. The corpus of fund is to be raised to Rs. 500 Crore over two to three years.

ii) A separate category of non-banking finance companies (NBFCs) for attending to Micro finance business with entry capital of Rs. 25 Lakh is to be created. MFI would mobilize deposits Rs. 5000 per depositor covered by the guarantee of Deposit insurance credit corporation

iii) Group recommended that RBI should establish micro finance funds for capacity building. RBI should constitute a permanent working group on micro finance to monitor and review the progress on allocation of resources.

iv) NGOs / Federation of SHGs involved in mobilization of savings and lending activity should transform themselves in to mutually aided cooperative societies/NBFCs within two years. If NGOs intend to transform themselves in to section 25 companies, they would carry lending activity only. The size of the loan to individual members of SHGs should not exceed Rs. 50,000. The interest charged by NGO to be made public and method of fixation should be transparent, it could cover the capacity building and management costs as well.

RECOMMENDATIONS OF VYAS COMMITTEE (2004)

RBI setup an advisory committee on provision of credit to agriculture and allied activities under the chairmanship of professor V.S.Vyas in Dec. 2003. Committee submitted its report to RBI on 30th June 2004 with following recommendations related to micro finance.

i) Where SHG-Bank linkage programme has not shown satisfactory progress, Banks may evolve a three year action plan at each controlling unit level for scaling up the programme. Special attention to micro finance will go a long way in expanding this segment of business. All banks may set up adequately staffed micro finance cells at central offices and in each state.

ii) Banks need to make efforts to make access to financial services smooth and client friendly.

iii) Banks may explore possibilities of offering SHGs Credit cards similar to KCC and Swarojgar credit cards.

iv) Banks may encourage using local book writers to maintain the books of accounts in association with concerned agencies promoting these SHGs on a cost sharing basis, with some support from Banks.

v) All development agencies need to converge on SHGs to provide them necessary skills, market linkages, technological support etc. NABARD should continue to take the lead role in this regard.

vi) Cooperative banks may take up SHG banking on a significant scale with support from NABARD and state Govts.

vii) Non-Financial intermediary type federation need to be encouraged to provide umbrella support to member SHGs. Experimentation of the Financial intermediary type federations is needed to determine cost of promotion of such federations, capacity building of federations, their organizational and financial sustainability and above all the quality of value addition being achieved by these federations.

viii) NGO-MFI require regulatory and supervisory framework to be strengthened. MFIs should be encouraged in unbanked and rural areas.

ix) NGO-MFI can facilitate client's access to saving services of regulated banks. Without RBI's permission; MFI's are not to accept Public deposits.

x) As MFIs charge high rate of interest from borrowers, lenders to MFIs ensure that these institutions determine the rates of interest they charge to their clients on a cost plus reasonable margin basis.

RANGARAJAN COMMITTEE (2008)

Committee on Financial Inclusion which was constituted under the chairmanship of Dr. C. Rangarajan had given the major recommendations, which are summarized as follows:-

i) Farm household not accessing credit from formal sources is large; it varies across regions, social groups and asset holdings.

ii) In order to improve the level of inclusion, demand side efforts should be made like human and physical resource endowments, enhancing productivity, mitigating risk, strengthening market linkages, improve the delivery system.

iii) Policy changes are required for achieving desired level of financial inclusion.

iv) The committee proposed the constitution of two funds with NABARD- the financial inclusion promotion & development fund and the financial inclusion Technology fund with an initial corpus of Rs. 500 Crore each to be contributed in equal proportion by GOI/ RBI/NABARD.

v) For extending financial inclusion adoption of appropriate technology or Business Facilitator, Business Correspondent (BF/BC) models would enable the branches to go to customers. To extend the coverage of BF/BC some recommendations for relaxation of norms has been made by committee.

vi) Members of well established SHGs want to expand and diversify their activities for economies of scale. So many groups are organizing themselves into federations and other higher level structures. These federations at village and taluk level should be encouraged. But committee felt that they cannot be entrusted with the financial intermediation function, committee recommended amendment to NABARD Act to enable it to provide micro finance services to the urban poor.

vii) The clients like share croppers / oral lessees / tenant farmers, who have no collaterals to fit in to traditional financing approaches of the banking system, joint liability groups (JLGs), an up gradation of SHG model could be an effective way. Adoption of JLG concept for purveying credit to mid segment clients can reduce their dependence on informal sources of credit.

viii) Committee recommended a separate category of micro finance-Non banking finance companies (MF-NBFCs) without any reposition on start-up capital and subject to the regulatory prescription applicable for NBFCs. Such MF-NBFC may also be recognized as Business correspondents of banks for providing only savings and remittance services and also act as micro insurance agents.

ix) Committee recommended the linking of micro credit with micro- insurance, which is the key element in the financial services package for people at the Bottom of the Pyramid.

MALEGAM COMMITTEE REPORT FOR MFI REGULATION (2011)

RBI constituted Sub-committee under the chairmanship of Sh.Y.H. Malegam to address the important issues concerning the micro finance sector, which released the report of recommendations on 19th January 2011. This committee was to review the scope and objectives of regulations governing MFIs with regard to interest rates, lending and recovery practices, need for grievance redressal machinery, applicability of existing money lending legislations and other issues concerning the sector.

This committee recommended the creation of NBFC-MFIs providing short term and unsecured loans to the Low income borrowers for income generating activities. Some of the recommendations for NBFC-MFIs are:

i) NBFC-MFI to hold not less than 90% of its total assets as qualifying assets.

These NBFC-MFIs cannot provide loans to microfinance sector exceeding 10% of its total assets.

ii) Maximum limit to a single borrower i.e. Rs. 25,000.

iii) 75% of Loans given by the MFI should be for income generating purposes.

iv) All the services of MFI should be according to the guidelines.

v) All NBFC-MFIs are recommended to have a minimum net worth of Rs. 15 Crores.

Some other recommendations of Malegam Committee are as follows:

i) A borrower can be a member of only one self help group (SHG) or a joint liability Group (JLG). Single borrower cannot get loan from not more than two MFIs.

ii) Period of moratorium between disbursement of Loan and the commencement of recovery should be minimum.

iii) To avoid multiple lending and over borrowing, a credit information Bureau should be formed.

iv) Proper code of conduct for field staff for prevention of coercive methods of recovery should be followed.

v) RBI should frame a draft customer protection code, specified code of corporate Governance, grievance redressal procedure for all MFIs.

vi) Tenure of loan will be 1 year for the loan amounting to Rs. 15,000 and for other loans not less than 2 years without prepayment penalty.

vii) MFI cannot charge more than 1% of the gross loan amount as insurance premium, interest charges and loan processing fees.

viii) MFI should make aware the borrowers about effective interest rates to enable comparability.

ix) Only aggregate provision for loan losses should be maintained and disclosures in regard to outstanding loan pools should be made by MFIs.

x) Banks lending to MFIs would continue to be entitled to priority sector status. A cap of 24% is provided for interest on individual loans, an average margin cap of 10% for MFIs having loan portfolio of Rs. 100 Crores and above and cap of 12% for smaller MFIs.

xi) Sub Committee also recommended that entities governed by the Micro Finance (Development and Regulation) Bill 2010 should not be allowed to do business of providing thrift Services.

A key gap in these recommendations is that they apply only to NBFCs and focus on the prudential aspects of a MFI business. Emphasis of these recommendations is more on bank lending under PSL targets and less on framework for the MFI sector as a whole. Rather they focus on the business operations of the MFI, instead of broad principles of regulation. Inclusive growth always received special emphasis in the Indian policy making. Government of India and the Reserve Bank of India has taken several initiatives to expand access to financial systems to the poor. Some of the salient measures are nationalisation of banks, prescription of priority sector lending, differential interest rate schemes for the weaker sections, development of credit institutions such as Regional Rural Banks, etc. Despite the policy efforts, gap remains in the availability of financial services in rural areas.

INITIATIVES TAKEN

In case of India, the banking sector witnessed large scale of branch expansion after the nationalisation of banks in 1969, which facilitated a shift in focus of banking from class banking to mass banking. It was, however, realised that, not withstanding the wide spread of formal financial institutions, these institutions were not able to cater completely to the small and frequent credit needs of most of the poor. This led to a search for alternative policies and reforms for reaching out to the poor to satisfy their credit needs. Recognising the potential of micro finance to positively influence the development of the poor, GOI, RBI, NABARD and SIDBI have taken several initiatives over the years to give a further fillip to the micro finance movement in India. This segment of the present chapter traces the supportive policies and current status in this regard. India has recognized the unmet financial needs of poor people and has initiated and supported many progressive financial inclusion efforts in early 19th century. Priority sector lending is a government initiative which requires banks to allocate a percentage of their portfolios to investment in specified priority sectors at a reduced interest rate. Both the SHG approach and MFIs have been aided by the Reserve Bank of India's priority sector lending policy, which requires domestic banks to lend significant portions of their loan portfolio to underserved sectors and small producers. Lending to SHGs and MFIs meets part of this requirement. The Reserve Bank of India (RBI) encouraged banks to participate in microfinance by reckoning lending to the sector as part of their priority sector lending, which needs to account for 40% and 32% of net bank credit in the case of domestic and foreign banks respectively. Currently only microfinance institutions registered as NBFC-MFIs are designated as a priority sector. The number of priority sectors has recently been reduced, which suggests that banks will rely more heavily on lending to microfinance institutions to meet the priority sector requirements. In order to register as a NBFC- MFI, an institution must meet requirements specified by RBI. In 1994, RBI constituted working group on NGOs and SHGs and banks were advised inter alia, that financing of SHGs should be included by them as part of their lending to weaker sections. The Govt. of India also initiated to set up a Rashtriya Mahila Kosh (RMK) with initial fund of Rs. 310 Million to act as a provision of wholesale funds for the sector and to develop the sector through capacity building and advocacy.

TECHNOLOGY APPLICATIONS BY BANKS - SMART CARDS AND BIO- METRIC CARDS: Financial inclusion could be a cost-effective business proposition

if appropriate low-cost technology is adopted by commercial banks and rural financial institutions. Such technology should reduce transaction costs of providing banking services in the rural, unbanked and backward areas of the country. For instance, technology will allow branchless banking and establishment of new partnerships between financial service providers and a range of other service providers, that was not feasible before, to provide services to clients in remote areas and low-population density areas. Banks in India have initiated pilot projects utilizing smart cards/mobile technology to increase their outreach. Biometric methods for uniquely identifying customers are also being increasingly adopted. Banks are also increasingly adopting technological solutions for delivery of credit at affordable price and to a wider section of the population. Technology-enabled projects, viz. the Unique Identification Number (UID) project, CBS in RRBs and cooperative credit institutions, mobile banking, hand-held devices, smart cards, biometric cards, tech-savvy BCs (trained out of FITF), routing of payment under government social schemes through banks and microfinance have the ability to catapult financial inclusion into mainstream banking business. State Bank of India initiated a project called the SBI Tiny Card Accounts [SBITCAs] recently in Aizwal. The SBITCAs are based through new generation mobile phones based on near-field communication [NFC] technology, enhanced with fingerprint recognition software and attached to receipt printer. The card allows activation of transfer of funds for the purpose of micro-savings, cash deposits and withdrawal, micro-credit, money transfer [account-to-account within the system], micro-insurance, cashless payments to merchants, SHG Savings-cum-credit accounts and attendance systems, disbursements of Government benefits like the national rural employment guarantee scheme, for equated monthly installments, utility payments, coupons, vouchers, tickets, automatic fare collection systems, etc.

INITIATIVES TAKEN BY NABARD

SHG-Bank Linkage Programme: One of the early attempts at financial inclusion during the period of economic reforms in India has been the launching of the Pilot Project on SHG-Bank Linkage in February 1992 by NABARD. It proved to be a revolutionary programme for alleviating poverty through capacity building and empowerment of the rural poor, especially women. Microcredit extended either directly or through any intermediary is reckoned as part of bank's priority sector lending. The SHG-Bank Linkage Programme provides opportunities for the rural poor to participate in the development process. It is cost effective, and ensures that more and more people are brought under sustainable developmental activities, within a short span of time. As on end-March 2004, about 1.1 million self-help groups (SHGs) were linked to banks covering 16 million poor families. Total flow of credit was Rs.3,900 crore with an average loan of Rs.36,000 per SHG and Rs.2,400 per family. Banks are encouraged to further strengthen this process. As per announcement in the Union Budget for 2004-05, credit linking of 5.85 lakh SHGs need to be completed by March 2007. Specific steps are being taken to identify district level bottlenecks in regions where linkage has been relatively low. The SHG-Bank Linkage Programme, over the past twenty two years has become the common vehicle in the development process, converging important development programmes. The small beginning of linking only 500 SHGs to banks in 1992, had grown to over 0.5 million SHGs by March 2002 and further to 8 million SHGs by March 2012. From almost 100% of the SHGs linked to Banks at the pilot stage from southern states, the share of southern States in the total number of SHGs linked shrank to 46% by March 2012, while the share of eastern States (especially, West Bengal, Odissa, Bihar) shot up to over 20%. The third decade of the programme promises to be one of maturing the linkage programme with livelihoods support, lot more innovations in the product range offered through SHGs and path breaking reforms in leveraging technology to improve efficiency, while extending its outreach to more geographical regions, especially the most resource poor regions of the country. It is widely believed that the SHGs of the poor will be the vehicles leading the march of India's emergence as a super economic power in the next decade. A number of countries, especially the developing countries and international agencies are turning to India to learn from its experiments with micro Finance and to explore possibilities of replication of the model in other parts of the globe. Rating of Micro Finance Institutions (MFIs): In order to identify MFIs, classify and rate such institutions and empower them to intermediate between the lending banks and the clients, NABARD has decided to extend financial assistance to Commercial Banks and Regional Rural Banks by way of grant to CBs, RRBs and Co- operative Banks to avail of the services of accredited rating agencies for rating of MFIs. The banks can avail the services of credit rating agencies, M-CRIL, ICRA, CARE and Planet Finance in addition to CRISIL for rating of MFIs. The financial assistance by way of grant for meeting the cost of rating of MFIs would be met by NABARD to the extent of 100% of the total professional fees subject to a maximum of Rs.3,00,000. The remaining cost would be borne by the concerned MFI. MFIs which have a minimum loan outstanding of more than Rs. 50.00 lakh (Rupees fifty lakh only) and maximum of Rs. 10 crore (Rupees Ten crore only) would be considered for rating and support under the scheme. Financial assistance by way of grant would be available only for the first rating of the MFI. The Scheme was operational up to 31 March 2010. MFIs availing Capital Support and/or Revolving Fund Assistance from NABARD are also eligible for re-imbursement of 50% of the cost of professional fee charged by Credit Rating Agency for second rating subject to a maximum of Rs.1.50 lakh (i.e. 50% of Rs.3 lakh). This will be in addition to the reimbursement of professional fee for first rating of the MFI. During 2009-10, NABARD has provided grant support of Rs. 15.83 lakh for rating of 13 MFIs to Banks or MFIs. The MFI-wise details of the grant support provided by NABARD for rating of the MFIs during the year are given below.

Table 3.2: MFIs Assisted With Grant Support for Rating during the Year 2009- 2010

(Amount in Rs.)

Sr.

No.

Name of Agency State Grant

Amount

1. Unique Social Equity – State Bank of

India

Kolkatta 80000

2. Asha Welfare – State Bank of India Kolkatta 100000

3. Organization for Development and Coordination Orissa 155000

4. SAMUHA – State Bank of India Karnataka 100000

5. PARAYAS Gujarat 112360

6. Vardan Socio Development Foundation Gujarat 100000

7. Sanjana Finance Pvt. Ltd. Bihar 165450

8. CDOT Nalanda Bihar 112360

9. Vikas MACTS Vishkhapatnam Andhra Pradesh 132360

10. Chinyard – State Bank of India Karnataka 112360

11. SMS Ltd. Orissa 110300

12. Gram Utthan Orissa 165450

13. Gram Vikas Kendra Kolkatta 137875

Total 1583515

Source: NABARD Annual Report, 2009-10.

Revolving Fund Assistance (RFA) to MFIs: Recognising the role played by MFIs, in extending micro finance services in the unbanked areas, NABARD extends support to these institutions through grant and loan based assistance. NABARD has been selectively supporting MFIs for experimenting with various micro finance models such as replication of Grameen Model, NGO networking (bigger NGOs supporting smaller NGOs), credit unions and SHG federations, among others, to meet credit requirements of the unreached poor. NABARD provides loan funds in the form of revolving fund assistance (RFA) on a selective basis to MFIs to be used by them for on-lending to SHGs or individuals.

Micro Finance Development and Equity Fund (MFDEF): Recognising the need for upscaling the micro finance intervention in the country, the Union Finance Minister, in the budget for the year 2000-01, announced creation of a Micro Finance Development Fund (MFDF). The objective of the MFDF is to facilitate and support the orderly growth of the micro finance sector through diverse modalities for enlarging the flow of financial services to the poor, particularly for women and vulnerable sections of society, consistent with sustainability. Consequently MFDF with a corpus of Rs.100 crore was established in NABARD. The Reserve Bank and NABARD contributed Rs.40 crore each to the fund, while the balance was contributed by eleven selected public sector banks. As per the Union Budget announcement for the year 2005-06, the MFDF was re-designated as ‘Micro Finance Development and Equity Fund’ (MFDEF) with an increased corpus of Rs.200 crore and same has been further increased to Rs. 400 crore during 2010-11. The fund is being managed by a board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The Reserve Bank is a member of the Advisory Committee of the MFDEF. The MFDEF maintained by NABARD is used for capacity building management information services, regulatory and supervisory framework, studies and publications etc. It was later in 2005-06, doing re- promotion of micro finance through scaling-up of the SHG-bank linkage programme, extending RFA and capital support to MFIs and undertook various promotional initiatives. Accordingly, NABARD formulated a scheme called ‘Capital/Equity Support to MFIs’ in 2007-08 for providing Capital/equity support to various types of MFIs to enable them to leverage commercial and other funds from banks. This would help MFIs in providing financial services at an affordable cost to the poor. During 2009-10, NABARD introduced a new scheme for ‘Capital Support to start-up MFIs having potential to scale-up their activities but lacking in capital, infrastructural facilities and managerial skills. Micro-Finance Organisations (MFOs) and MFI-NBFCs, identified as ‘Start ups’ on the basis of area of operation, client outreach, lending model, borrowing history, etc., are eligible for support under the scheme. Financial support will be in the form of ‘subordinated debt’ which shall be sub-ordinate to the claims of all other creditors. The quantum of support will be commensurate with the business plan of the MFO / MFI-NBFC but not exceeding Rs. 50 lakh in any case. The rate of interest has been fixed at 3.5 per cent to be repaid over a period of 7 years including moratorium of 2 years. During 2009-10, under Capital Support Scheme, 10 proposals amounting to Rs. 6.87 crore were sanctioned to 10 MFIs and disbursed Rs. 7.87 crore. The outstanding under Capital support as on 31 March 2010 was Rs. 24.17 crore against 31 MFIs. During 2011-12, Rs. 33.31 crore was released of which Rs. 28.68 crore was grant support for promotional activities and Rs. 4.63 crore for capital support and lending resources to MFIs. As against a total corpus of Rs. 200 crore contributed by RBI, NABARD and commercial banks, the actual (cumulative) utilisation of the fund stood at Rs. 278.31 crore as on 31 March 2012. NABARD has been augmenting this fund from its own resources and has also been crediting interest on the unutilized portion of this fund. There have been no further receipts forthcoming from other contributors of this fund.

INITIATIVES COMMENCED BY NABARD DURING THE YEAR 2011-12

Tablet PC Based Accounting System for SHGs: This is a web cum tablet enabled SHG bookkeeping solution being piloted in 100 SHGs in Maharashtra state. The tablet will be used by field staff of NGOs to maintain and update SHG’s data and it would facilitate the monitoring of SHGs. SHG can also access copies of financial transactions, final accounts etc on payment of nominal fees. The pilot scheme also intends to work out a revenue model for such field staff. Various graphical as well as analytical reports can be generated which help to monitor the particular SHG at micro level. All the SHG members and cooperative bank personnel who have promoted the groups have been trained and have started using the Tablet. Mobile Based Accounting System for SHGs: NABARD has initiated a pilot project on SHG Book keeping project for 100 SHGs in Tamil Nadu, using mobile handsets. The application is expected to help SHGs to maintain their financial transactions electronically in the local language and allows ease of monitoring to all stakeholders. SHG transactions are entered through the mobiles owned by SHGs. Besides the financial transactions, attendances etc. are also captured through this mechanism. The other stakeholders including SHPI /Bank /NABARD could generate MIS report on a regular basis through a web access or through automated e-mail system. SMS updates

are sent to every member of the group on weekly basis to ensure smooth running of

the group.

Web Based MIS for Tracking SHPI-Partners: A web-based application for monitoring the progress of all SHPIs partners provided with grant assistance by NABARD for promotion of SHGs has been launched by NABARD. The website (www.nabardshg.in) will help electronic updation of progress on real time basis by SHPI and help monitoring the progress of all SHPI projects. The SHPIs will be required to register themselves in the website and also gain access to guidelines, tool kits, study materials etc.

E-bookkeeping Through POS/Handheld Device: This is yet another ICT enabled bookkeeping endeavor for SHGs using handheld devices which are normally used for electronic ticketing. The device will capture the accounting and book keeping aspects of SHGs and generate no. of reports which can be printed instantly. The data can also be transferred to a PC and reports can be generated. SHG members can know their savings, loan outstanding, bank balance etc. It is being implemented on a pilot basis in Uttar Dinajpur district of West Bengal.

Computer Munshi System: PRADAN evolved the Computer Munshi System to improve the book keeping of the self Help groups (SHGs), so as to improve transparency, equity and longevity of its groups. The model basically aims to improve the accounting and book keeping of the SHGs. A member, acceptable to all the members and capable, of the group is selected and trained in book keeping. He is the Group Accountant (GA). He is supported by a Computer Munshi (CM), who is equipped with a computer and printer in a central location with power connection. A CM is expected to serve about 300 groups. Regular Monthly Transaction Statement (RMTS) consisting of the weekly savings and credit transactions and balances, including expenditure and income statement is delivered to the CM. The CM enters these accounts in the computer and sends back the corrected statement to the GA. The system is designed to be self-corrective, as the GA is warned each week about the discrepancies, if any. Similarly the CM is also warned of discrepancies every week.

Monthly trial balance for the group is prepared by the CM which is discussed in the monthly meetings of the group. The group pays a fee to both the GA and CM. As on March 2005, there were 48 CMs saving about 2000 groups. The model is cost effective, helps in timely preparation of accounts and identifying the discrepancies at the initial stages. PRADAN was provided with grants by NABARD, SIDBI, and DFID.

INITIATIVES BY SIDBI

SIDBI launched its micro finance programme in February 1994 on a pilot basis. The programme provided small doses of credit funds and limited amount of capacity building grant to the NGOs all across the country. To take the agenda forward, the SIDBI Foundation for Micro Credit (SFMC) was created in January 1999. SFMC's mission is "to create a national network of strong, viable and sustainable Micro Finance Institutions from the informal and formal financial sector to provide micro finance services to the poor, especially women''.

SIDBI's pilot programme of 1994 showed that collateral-based lending does not work insofar as micro finance is concerned. NGOs/ MFIs acting as financial intermediaries do not have tangible collateral to offer as security for the loans. With a view to catering to this objective, SIDBI pioneered the concept of capacity assessment rating (CAR) for the MFIs. As part of its developmental agenda, SIDBI encouraged a private sector development consulting firm to develop a rating tool for the MFIs which were rolled out in 1999. Two mainstream rating agencies, viz., CRISIL and CARE have also started undertaking micro finance ratings, besides M-CRIL. SIDBI has also adopted the institutional capacity assessment tool (I-CAT) of access development services (ADS), a private sector consulting organisation, for rating of start-up/small and mid-sized MFIs.

SIDBI introduced a product called 'transformation loan' in 2003 to enable the

MFIs to transform themselves from an informal set up to more formal entities. This

loan is a quasi-equity product with longer repayment period and features for

conversion into equity at a later date, when the MFI decides to convert itself into a

corporate entity. Consequently, a number of MFIs went ahead with the transformation

and some of them have now grown significantly and are serving millions of clients

across several states. Today, SIDBI is one of the largest providers of micro finance

through the MFIs.

Table 3.3: MFIs Supported by SIDBI

(Amount in Crore)

No. of MFIs Amount

Loans disbursed to MFIs during 2009-10 88 2665.75

Loans outstanding against MFIs as on 31 March 2010 146 3808.20

Source: NABARD Annual Report, 2009-10. MFI-BANK LINKAGE PROGRAMME: INITIATIVES

The Committee on Financial Inclusion (Government of India, 2008) has recommended that greater legitimacy, accountability and transparency will not only enable MFIs to source adequate debt and equity funds, but also eventually enable them to take and use savings as a low cost source for on lending. These developments resulted in Andhra Pradesh Government promulgating an ordinance to severely restricting their lending operations and recovery mechanism. As a result, the lending operations of these institutions virtually came to a halt not only in AP where most of their lending operations were concentrated but in other areas as well while the recovery of loans nose-dived. The Reserve Bank of India has since notified guidelines for the lending operations of MFIs based on the Malegam Committee recommendations. A new class of financial organizations named as NBFC-MFIs has been created and subject to certain conditions regarding the capital to be employed, landings to SHG members, cap on interest to be charged and margin to be retained, etc. The loans extended to these NBFC-MFIs by banks now qualify for priority sector loan.

The progress under MFI-Banks linkage programme during the last 4 years is

shown in table below:

Table 3.4: Progress under MFI-Bank Linkage Programme

(Amount in Crore)

Particulars

2008-09 2009-10 2010-11 2011-12 2012-13

No. of

MFIs Amount No. of

MFIs Amount No. of

MFIs Amount No. of

MFIs Amount No. of

MFIs Amount

Loans

disbursed by

banks to MFIs

581

(12.2%)

3732.33

(89.4%)

779

(34%)

10728.50

(187.4%)

471

(-39.5%)

8448.96

(-21.3%)

465

(-1.3%)

5205.29 (- 38.39%)

426

(-8.4%)

7839.51

(50.6%)

Loans

outstanding

against MFIs

as on 31

March

1915

(72.7%)

5009.09

(82.2%)

1659

(-13.4%)

13955.75

(178.6%)

2315

(39.5%)

13730.62 (- 2.0%)

1960

(-15.3%)

11450.35 (- 16.6%)

2042

(4.2%)

14425.84

(26.0%)

Fresh loans as

% of loans

outstanding

74.5 76.9 61.5 45.5 54.3

Note: Actual number of MFIs availing loans from Banks would be less than the figures shown as most of MFIs avail loans from more than one Bank. Source: NABARD Annual Reports.

MFI BANK PARTNERSHIP MODEL – AN INITIATIVE BY ICICI BANK

In 2002, India's largest private sector bank, ICICI Bank, initiated an MFI partnership model according to which MFI loans remained on the bank's balance sheet though the loan origination, monitoring and collection services were performed by the MFI for a fee. The MFI also shared the credit risk up to a specified level. The policy environment largely supported this innovation which increased considerably the pool of funds available for MFIs. In 2006, undesirable practices of some MFIs in

Andhra Pradesh led the RBI to initiate new measures. RBI urged banks to strengthen their Know-Your-Customer (KYC) procedures by ensuring receipt of day-end transaction information, as the loans were on the books of the bank. This means that the model can be used only in situations where the bank and MFI have the technology, necessary to meet the above requirement.

Institutions agree to promote and strengthen the micro-finance movement in the country by bringing the low-income clients to the mainstream financial sector. They also agree to build progressive, sustainable and client-centric MFIs in the country to provide integrated financial services to the clients. Their aim should be to promote cooperation and coordination among MFIs and other agencies to achieve higher operating standards and avoid unethical competition in order to serve the clients better. The Voluntary Mutual Code of Conduct for member-MFIs sharply and elaborately focus on integrity, fair practices, governance and feedback/grievance mechanisms, transparency in interest rates is an attempt to introduce uniform practices in the sector. Since the country has adopted 'Multi-Agency Approach' for providing financial services in rural areas through two-tier cooperative credit structure, public and private sector commercial banks, regional rural banks, local area banks it is most important that these financial institutions among them adopt this voluntary mutual code of conduct in their own interest in particular and for the larger benefit of rural households in general. Demand for financial services in rural areas has indeed not been genuinely created [clients are served as and when they approach] through creating enabling environment by the Government, rural financial institutions and private sector business community. As a result, at present there is in reality no competition. However, there is need for healthy competition, for obvious reasons, among rural financial institutions, which need to voluntarily adopt this mutual code of conduct. In addition the microfinance industry has taken some significant steps towards systemic regulation.

Recognizing the need for better governance practices, and in the absence of formal regulation, several MFIs came together in 2009 to constitute the previously- mentioned Micro Finance Institution Network (MFIN). MFIN is a self-regulatory organization created by 44 NBFC MFIs in India, who share an interest in protecting and building the integrity of the sector. This was in response to controversies such as multiple lending and lack of transparency by MFIs. MFIN has already taken some steps such as building a credit bureau, creating task forces for transparency and establishing a code of conduct.

Priority Sector – Revised Guidelines

The need for commercial banks to improve Priority Sector advances was emphasized since 1968 with special focus on Agriculture and Small Scale industries. Initially there was no specific target fixed in respect of priority sector lending but in the year 1974 banks were advised to raise the share of these sectors to 1/3rd of their aggregate advances by March 1979. Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks under the chairmanship of Dr. K. S. Krishna swamy, all commercial banks were advised to achieve the target of priority sector lending at 40% of aggregate bank advances with specified sub-targets for lending to agriculture and weaker sections. The Internal Working Group of the RBI headed by Shri C. S. Murthy and the Shri Y.H.Malegam committee constituted to study issues and concerns in the Micro Finance institutions (MFI) sector, inter alia, had recommended review of the guidelines on priority sector lending. Subsequently, RBI has setup a Committee headed by Shri M V Nair to re-examine the existing classification and suggest revised guidelines with regard to Priority Sector lending classification and related issues. Subsequently, an Internal Working Group was set up by RBI in July 2014 to revisit the existing priority sector lending guideline and accordingly, revised guidelines are issued on 23.04.2015 which is as under:

Agriculture: The present distinction between direct and indirect agriculture is dispensed with. The lending to agriculture has been defined which includes Farm sector, Agriculture infrastructure and Ancillary activities. List of eligible activities under each category are furnished here under:

Farm Credit: Loans to individual farmers, including SHGs/JLGs directly engaged in agriculture and allied activities such as dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. The credit facilities to the above segments covers crop loans as well as term loans. Loans to farmers up to `50 lakh against pledge/hypothecation of agriculture produce for a period not exceeding 12 months. It also covers loans to corporate farmers, farmers' producer organizations, partnership firms and co-operatives of farmers.

Agriculture infrastructure: Loans for construction of storage facilities (warehouses, market yards and silos) including cold storage units irrespective of their location. Soil conservation, watershed development programs, plant tissue culture, agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer and vermi composting are also cover under this category. To consider under priority, the aggregate sanction limit per borrower should not exceed `100 lakhs from the banking system.

Ancillary activities: It covers, loans for setting up of Agri-clinics, Agri Business Centres, Food and Agro processing units (not exceeding `100 crore per borrower), loans to PACS, FSS, MFIs for on-lending to agriculture sector, and loans to co-operative societies of farmers up to `500 lakh for disposing of the produce of members. Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall is considered as part of agriculture lending.

Micro, Small and Medium Enterprises: Manufacturing Enterprises are those engaged in manufacturing or production of goods. These are defined in terms of investment in Plant & Machinery. Loans extended to Medium Manufacturing Enterprises shall be classified as Priority Sector advances. Similarly, Service Enterprises are the enterprises engaged in providing or rendering of services. These are defined in terms of investment in Equipment. The modified definitions of MSM Enterprises are as under:

No	Category	Investment in Plant & Machinery / Equipment	
		Manufacturing	Service
1	Micro Enterprise	Up to `25 lakhs	Up to `10 lakhs
2	Small Enterprise	`25 to ` 500 lakhs	`10 to 200 lakhs
3	Medium Enterprise	`500 to `1000 lakhs	`200 to 500 lakhs

Bank loans to Micro, Small and Medium enterprises, for both manufacturing and service sectors are eligible to be classified under the priority sector. However, bank loans up to `500 lakh per unit to Micro and Small enterprises and `1000 lakh to Medium enterprises engaged in providing or rendering services are covered under priority sector advances. All loans sanctioned to units in the Khadi and Village Industries (KVI) sector, irrespective of their size of operations, location and amount of original investment in plant & machinery. Such advances will be eligible for consideration under the sub-target of 7% / 7.5% prescribed for Micro enterprises under priority sector.

Housing Loans: Loans to individuals up to `28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to ` 20 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed `35 lakh and `25 lakh respectively. However, housing loans to banks' own employees will be excluded. As housing loans which are backed by long term bonds are exempted from ANBC, banks should either include such housing loans to individuals up to `28 lakh in metropolitan centres and `20 lakh in other centres under priority sector or take benefit of exemption from ANBC, but not both. Further, housing loans to the following are also treated as priority sector:

Loans for repairs to damaged dwelling units of families up to `5 lakh in metropolitan centres and up to `2 lakh in other centres.

Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of `10 lakh per dwelling unit.

Loans sanctioned for housing projects exclusively for the purpose of construction of houses only to economically weaker sections and low income groups, the total cost of which does not exceed `10 lakh per dwelling unit, will qualify for priority sector status. However, the family income of the borrower should not exceed `2 lakh per annum irrespective of location.

Loans to Housing Finance Companies (HFC), for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of `10 lakh per borrower, provided the all inclusive interest rate (Interest rate, processing fee and service charges). However, this segment should not exceed five percent of the individual bank's total priority sector, on an ongoing basis. The maturity of bank loans should be co-terminus with average maturity of loans extended by HFCs. Banks should maintain necessary borrower-wise details of the underlying portfolio.

Outstanding deposits with NHB on account of priority sector shortfall.

Bank loans up to a limit of ` 5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.

Education Loans: Loans to individuals for education purposes including vocational courses up to `10 lakh in India and `20 lakh for abroad studies irrespective of the sanctioned amount will be

Social Infrastructure: Bank loans up to a limit of `5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities in Tier II to Tier VI centres.

Renewable Energy: Bank loans up to a limit of `15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification. For individual households, the loan limit will be `10 lakh per borrower.

Weaker Sections: Priority sector loans to the following borrowers will be considered under weaker sections category:

No	Category
1.	Small and Marginal Farmers
2.	Artisans, village and cottage industries where individual credit limits do not exceed `1 lakh
3.	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
4.	Scheduled Castes and Scheduled Tribes
5.	Beneficiaries of Differential Rate of Interest (DRI) scheme
6.	Self Help Groups
7.	Distressed farmers indebted to non-institutional lenders
8.	Distressed persons other than farmers, with loan amount not exceeding `1 lakh per borrower to prepay their debt to non-institutional lenders
9.	Individual women beneficiaries up to `1 lakh per borrower
10.	Persons with disabilities
11.	Overdrafts up to `5000/- under Pradhan Mantri Jan Dhan Yojana(PMJDY) accounts, provided the borrowers' household annual income does not exceed ` 100,000/- for rural areas and `1,60,000/- for non-rural areas
12.	Minority communities as may be notified by Government of India from time to time

8. Investments by banks in securitised assets, representing loans to various categories of priority sector, except 'others' category, are eligible for classification under respective categories of priority sector.

9. Transfer of Assets through Direct Assignment/Outright purchases by banks representing loans under various categories of priority sector, except the 'others' category, will be eligible for classification under respective categories of priority sector.

10. Bank credit to MFIs extended for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorisation as priority sector advance under respective categories viz., Agriculture, Micro, Small and Medium Enterprises, and 'Others', as indirect finance, provided not less than 85 percent of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan, extended for income generating activity, should be not less than 50 percent of the total loans given by MFIs. "Qualifying asset" shall mean a loan disbursed by MFI, which satisfies the following criteria:

The household annual income of the borrower in rural areas does not exceed `1 lakh while for non-rural areas it should not exceed ` 1.60 lakh.

n does not exceed `60,000/- in the first cycle and `1 lakh in the subsequent cycles. Tenure of loan is not less than 24 months when loan amount exceeds ` 15000/- with right to borrower of prepayment without penalty.

Total indebtedness of the borrower does not exceed `1 lakh.

The margin cap should not exceed 10 percent for MFIs having loan portfolio exceeding ` 100 crore and 12 percent for others. With effect from April 1, 2014, interest rate on individual loans will be the average Base Rate of five largest commercial banks by assets multiplied by 2.75 per annum or cost of funds plus margin cap, whichever is less.

The banks should obtain from MFI, at the end of each quarter, a Chartered Accountant's Certificate stating, inter-alia, that the criteria on qualifying assets, the aggregate amount of loan, extended for income generation activity, and pricing guidelines are followed.

Factoring - Reserve Bank has included factoring transactions under priority sector lending with an aim to increase cash flow to small and medium enterprises. Factoring transactions on 'with recourse' basis shall be eligible for priority sector classification. Factoring is a type of financial transaction and debtor finance in which a business sells its invoices to a third party, called a factor, at a discount. TReDS is an exchange-based trading platform to facilitate financing of bills raised by such small entities to corporate and other buyers, including government departments and PSUs, by way of discounting. Factoring through TReDS shall also be eligible for classification under priority sector upon operationalisation of the platform.

Differential Rate of Interest Scheme (DRI): The target stipulated for lending under DRI scheme is 1% of previous year total advances of the Bank. The existing loan limit is increased from `6500/- to ` 15000/- and the housing loan limit is also increased from `5000/- to ` 20000/-. The borrower's family income eligibility criteria is revised to `18000/- & ` 24000/- p.a. for Rural & Semi-Urban/Urban areas respectively. The interest rate on DRI loans is 4% p.a. simple interest at half-yearly rests. At least two third of DRI advances should be granted through rural/semi-urban branches. 40% of DRI advances should go to SC/ST. 2/3rd of total DRI lending is to be routed through Rural and Semi Urban branches. Branches can assist the handicapped/disabled persons for acquiring aids, appliances and equipment needed especially by students for pursuing studies and vocational training – example Braille Typewriters for blind etc.

Classification of Farmers		
Category	Irrigated Land Holding	Un-irrigated Land Holding
Marginal	1.25 Acres Or	2.5 Acres
Small	2.50 Acres Or	5.0 Acres
Others	Above 2.50 Acres Or	Above 5 Acres

Credit flow to SC/ST	
Scheme	Reservation / Relaxation
DRI	40% of Advances. Land holding criteria is not applicable
SGSY	50% of the families assisted
SJSRY	Credit to be extended to the extent of their strength in the local
PMEGP	22.50% of Advances. Age relaxation – 10 Years

Adjusted Net Bank Credit (ANBC): This concept is applicable to Scheduled Commercial banks, Urban Cooperative Banks and Small Finance Banks. Hitherto, Priority Sector Lending (PSL) being a percentage of total credit which was not getting truly reflected for various reasons and hence the, the concept of ANBC has been introduced. The spirit of the concept is to calculate the total credit as on close of business of preceding year in a non-discriminatory way so that the banks are neither unduly benefitted nor adversely penalized. The ANBC is arrived at in a judicious manner by reducing the quantum of total credit whenever banks did not part with their own funds and by increasing the same by the quantum of credit which should have formed part of the credit but had gone to other avenues. The computation of ANBC = Total credit minus Bills discounted with RBI and other approved financial institutions plus Bonds/Debentures in Non-SLR categories under HTM category + other investments eligible to be treated as PSL + outstanding deposits under RIDF and other eligible funds with NABARD, NHB, SIDBI and Mudra Limited on account of priority sector shortfall + outstanding PSLCs

Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE): Some banks business models allow them to focus less on credit and more on Off-balance sheet items such as Letter of Credit, Bank Guarantees, Derivatives, etc. In such cases, PSL, if calculated on ANBC would be less as off-balance sheet items do not form part of credit. Hence, PSL in such cases will be computed as a percentage of CEOBE so that the quantum of PSL does not become casuality.

Priority Sector – Targets & Sub-targets

Category	Domestic commercial banks and Foreign Banks with 20 branches and above
Priority Sector	40 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher.
	18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18%, a target of 8% of ANBC Agriculture or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal farmers, to be achieved in a phased manner i.e. 7% by March 2016 and 8% by March 2017.
Micro enterprises	7.5% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher to be achieved in a phased manner by March 2017.
Export credit	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2015 subject to a sanctioned limit of `25 crore per borrower to units having turnover of up to `100 crore.
Weaker sections	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Differential Rate of Interest Scheme	1 per cent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 per cent of the total advances granted under DRI scheme go to SC/ST. At least two third of DRI advances should be granted through rural and semi-urban branches.

With regard to foreign banks with below 20 branches, the target is stipulated 32% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. The additional priority sector lending target of 2% has to be achieved every year from 2016-17 and reach 40% by 2019-20. To ensure continuous flow of credit to priority sector, there will be more frequent monitoring of priority sector lending compliance of banks on 'quarterly' basis instead of annual basis as of now. Scheduled Commercial Banks having any shortfall in lending to priority sector shall be allocated amounts for contribution to RIDF established with NABARD and other Funds with NABARD/NHB/SIDBI, as decided by the Reserve Bank from time to time. Non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances/approvals for various purposes.

Priority Sector Lending Certificates (PSLC): Presently, Banks which are short fall in Priority Sector (PS) lending are investing in Rural Infrastructure Development Fund (RIDF) of NABARD. However, the yield on such investments is low. To obviate the above situation, RBI introduced PSLC. The banks who have PS advances more than the stipulated norm, may issue PSLCs. The banks who contribute to these certificates can show the amounts subscribed against their PS lending. At the same time, the bank which has issued the certificate will reduce the amount from their PS advances. However, there will be no transfer of credit risk on the underlying assets. The transactions can be done through the CBS portal “e-Kuber” maintained by RBI. The standard lot size is `25 lakh and multiples thereof and the validity period is 31st
March every year. This is credit positive for banks without expertise in making priority sector loans because it allows them to focus on their strengths and purchase credits from banks with expertise in making such loans, instead of diverting their own resources towards meeting PS lending targets.

Prime Minister Employment Generation Programme (PMEGP): Prime Minister’s Employment Generation Programme (PMEGP) by merging the two schemes that were in operation till 31.03.2008 namely Prime Minister’s Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. The Scheme will be implemented by Khadi and Village Industries Commission
(KVIC) and the details are as under:

Category	Borrower contribution	Subsidy Urban	Subsidy Rural
General	10%	15%	25%
Special (SC/ ST/OBC/Minorities/Women/ Ex-servicemen / Physically handicapped/ NER / Hill and Border areas etc.)	05%	25%	35%

The maximum cost of the project/unit admissible under manufacturing sector & business/service sector is ` 25 lakh & ` 10 lakh respectively. The balance amount, excluding Margin Money/subsidy, will be provided by Banks as term loan.

Any individual above 18 years of age is eligible for the loan. Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme) are also eligible for assistance under PMEGP. Institutions registered under Societies Registration Act 1860; Production Co-operative Societies, and Charitable Trusts. However, existing Units (PMRY / REGP or any other scheme of Central / State Government) and the units that have already availed Government Subsidy (including units registered & certified khadi institutions who have availed subsidy from central/state government) are not eligible.There will be no income ceiling for assistance for projects under PMEGP. For setting up of project costing above `10 lakhs in the manufacturing sector and above `5 lakhs in the business/service sector, the beneficiaries should possess at least VIII standard pass educational qualification. Assistance is available only for new projects under the PMEGP. To claim Margin Money (Subsidy), the borrower is required to submit caste/community certificate or relevant document issued by the competent authority. In case of institutions, a certified copy of the bye-laws is required. Project cost will include Capital Expenditure and one cycle of Working Capital. Cost of the land should not be included in the Project cost. Projects costing more than `5 lakh, which do not require working capital, need clearance from controlling office.

PMEGP is applicable to all new viable micro enterprises, including Village Industries projects except activities indicated in the negative list of Village Industries. Existing/old units are not eligible. Only one person from one family is eligible for obtaining financial assistance for setting up of projects under PMEGP. The 'family' includes self & spouse. No collateral security will be insisted upon for projects involving loan upto `10 lakhs in respect of the projects cleared by the Task Force.

After issuance of the sanction letter by the financing branch, the beneficiary must have to undergo EDP training (at least 2 weeks) for the purpose of release of funds. The margin money (subsidy) is to be kept in Term Deposit for three years at branch level in the name of the beneficiary/Institution. No interest will be paid on the TDR and no interest will be charged on loan to the corresponding amount. Repayment schedule may range between 3 to 7 years after an initial moratorium as may be prescribed by the concerned bank/financial institution. Corporation Bank is acting as Nodal bank in implementation of PMEGP scheme in the country.

Swarnajayanti Gram Swarojgar Yojana (SGSY): It is a Scheme which is a restructure of the erstwhile schemes like IRDP, TRYSEM, DOWCRA, SITRA, GKY & MWS etc., with the objective to bring the assisted poor rural families above poverty line. The scheme aims at establishing a large number of micro enterprises in the rural area. The identification of the borrowers will be done by Grama Sabha. Productive and viable activities under Agriculture & ISB are eligible under this scheme with 50% coverage by SC/ST, 40% coverage by women and 3% to Physically Handicapped borrowers. The size of the loan under the scheme would depend on the nature of the project. The loans under the scheme would be composite loan comprising of Term Loan and Working Capital. Subsidy admissible is @ 30% or maximum `7500/- (For SC/ST- 50% or maximum `10000) & for groups – 50% or maximum `1.25 lac (no ceiling for minor irrigation projects). For all individual loans exceeding one lakh and group loans exceeding `10 lakh, suitable margin money/other collateral security in the form of insurance policy; marketable security/deeds of other property etc. may be obtained. The repayment period – minimum of 5 years and branches should ensure that repayment not to exceed 50% of incremental income. In the event of unfortunate/untimely death of the borrower, LIC make payment of ` 6000/- for natural death and `12000/- for accidental death to the legal heirs of the borrower. (Cir no. 189 Ref 28/3 dated 2.8.2012)

Self Employment scheme for rehabilitation of Manual Scavengers (SRMS): The objective of the National Scheme for Liberation and Rehabilitation of Scavengers and their dependents is to liberate them from their existing hereditary and obnoxious occupation of manually removing night soil and filth and to provide for and engage them in alternative and dignified occupations. The Scheme would cover primarily all scavengers belonging to Scheduled Castes community. Scavengers belonging to other communities would also be covered. The scheme covers rural and urban areas and the identification will be done by Ministry of Social Welfare & National SC/ST financial development corporation. The beneficiaries are eligible for term loan up to ` 15 lakh and Micro finance up to `25000/- is allowed without any margin. The loans sanctioned under this scheme are eligible for subsidy @ 50% for the projects where the unit cost is up to ` 2 lakh and `1 lakh + 33.30% of project cost between `2 to 5 lakh; `2 lakh + 25% of project cost between 5 to 10 lakh and `3.25 lakh for projects above `10 lakh. The moratorium period for repayment of loan is maximum of 2 years. The beneficiaries are eligible for cash assistance of `40000/-payable in monthly installments of `7000/- after the identification of manual scavenger. Government provides training to the beneficiaries and pays ` 3000/- per month as stipend during training period. Repayment period of the loan is 5 years for the projects costing up to `5 lakh and 7 years for projects above `5 lakh. Rate of Interest – For loans up to ` 25000 @ 4% for women; others 5%. For loans above `25000/ -, the interest rate is @ 6% p.a.

Deendayal Antyodaya Yojana - National Urban Livelihood Mission (DAY – NULM): The GOI restructured the existing SJSRY and launched the NULM in the year 2013 in all district headquarters and all the cities with population of 1 lakh or more. The Self Employment Program (SEP) is one of the components of NULM which will focus on providing financial assistance through a provision of interest subsidy on loans to support establishment of individual & group enterprises and SHGs of urban poor. With a view to improving the livelihood of opportunities for the poor in urban areas, GOI has enhanced the scope of NULM and renamed as “Deendayal Antyodaya Yojana - National Urban Livelihood Mission (DAY – NULM)” and the salient features are as under:

No	Criteria	Individual Enterprises	Group Enterprises
1	Identification	Urban Local Body through (ULB) Task force consisting Municipal Commissioner, Lead District Manager, City Project Officer, Representative from DIC, Banks and City level federation.	
2	Eligibility	Urban poor (unemployed / under employed) living below the poverty line, in any city/town. Minimum 18 years at the time of applying for Bank Loan. Residing in the town for at least three years. No minimum and maximum educational qualification.	The group should have minimum 5 members (minimum 18 years) with minimum 70% members from urban poor families. More than one person from the same family should not be included in the same group. No minimum and maximum educational qualification.
3	Nature of Activities	Manufacturing, servicing and petty business having considerable local demand.	Manufacturing, servicing and petty business having considerable local demand.
4	Project Cost	`2 lakh.	`10 lakh.
5	Facility	Term Loan or Working Capital or Composite Loan.	Term Loan or Working Capital or Composite Loan.
6	Margin Money	No margin money up to 50000/- and for loans beyond fifty thousand 5% of the project cost.	No margin money up to 50000/- and for loans beyond fifty thousand maximum 10% of the project cost.
7	Interest	Prevailing interest rate. Interest subsidy will be given (over and above 7%) only in case of timely repayment of loan.	Prevailing interest rate. Interest subsidy will be given (over and above 7%) only in case of timely repayment of loan.
8	Collateral	No collateral is required. Loans should be covered under CGTMSE.	No collateral is required. Loans should be covered under CGTMSE.
9	Repayment	5 to 7 years after initial moratorium of 6 to 18 months as decided by Bank.	5 to 7 years after initial moratorium of 6 to 18 months as decided by Bank.
10	Others	Where the activity requires some special skills, appropriate training must be provided to the beneficiaries by the Nodal agency before extending financial support.	

Swarna Jayanti Shahari Rojgar Yojana (SJSRY): The objective of the scheme is to address Urban poverty alleviation, the scheme seeks to provide gainful self-employment to the urban poor (living below the urban poverty line) either unemployed or under employed, through setting up of self-employment ventures or provision of wage employment. The scheme has components such as Urban self Employment Programme (USEP), Urban Women Self-help Programme (UWSP), Skill Training for Employment promotion amongst Urban Poor (STEP-UP), Urban Wage

Urban Women Self-Help Programme (UWSP) – Operational details in regard to self-employment (group) through setting up of Micro-Enterprises

1	Identification	Survey by ULB Urban poor women living below the poverty line, in any city/town with preference performing urban women SHGs.
2	Eligibility	Minimum number of women in a group is five. 18 years at the time of the group applying for Bank Loan. No minimum and maximum educational qualification.
3	Activity	Any group activity/enterprise development for income generation by the urban poor women
4	Subsidy	Subsidy would be provided at the rate of 35% of the project cost subject to a ceiling of `3 lakh or `60,000/- per beneficiary.
5	Margin Money	5% of the project cost
6	Interest	Interest applicable to priority sector.
7	Collateral	No collateral is required.
8	Repayment	Repayment schedule ranges from 3 to 7 years after initial moratorium of 6 to 18 months as decided by Bank.

STEP-UP, UWEP & UDCN – Inputs under the scheme would be delivered both through the medium of community structures to be set up along with Urban Local Bodies (ULBs) like Community Development Society-CDS/ town-Urban Poverty Alleviation-UPA Cell.

Rajiv Gruha Kalpa Scheme is meant for Economically Weaker section segment in Urban areas. The borrowers income should be minimum ` 2,000/- per month and maximum `36000/- per annum. The unit cost `75,000/- and the borrower is required to bring 10% margin and the maximum Bank loan is `67,500 per house. 10% increase in unit cost is permitted. Site will be allotted by Govt. of A.P. at free of cost. Interest Rate 8% fixed.

Valmiki Ambedkar Awas Yojana (VAMBAY): Housing Finance Scheme was launched in Andhra Pradesh on 01.11.2002 with an objective to provide shelter or upgrade the existing shelter for people below the poverty line and EWS in urban slums. The ultimate objective of the Scheme is to have “Slum Less Cities”. The funding pattern is 50% Government, 40% bank Loan and 10% Borrower Margin. These loans attract interest @ 10% p.a. tripartite agreement between Beneficiary Bank & APSHCL.

Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) is introduced by Government of India with an objective to enable the Economic Weaker Sections (EWS) and Lower Income Group (LIG) segments in the urban areas to construct or purchase houses by providing an interest subsidy of 5% on loan amount of maximum `1 lakh. EWS and LIG are defined as households having an average monthly income up to `5,000 and `5,001 to `10,000 respectively. The borrowers under the scheme must have a plot of land for the construction or have identified a purchasable house. The preference under the scheme should be given to SC/ST/Minorities/Women/persons with disabilities in accordance with their population in the total population of the area as per 2001 census. The scheme will provide a subsidized loan for 15-20 years for a maximum amount of `1 lakh for EWS individual for a house at least of 25 sq. mts, and `1.60 lakh for a LIG individual for a house at least 40 sq.mts, will be admissible. However, subsidy will be given for loan amount up to ` 1 lakh only.

Pradhan Mantri Awas Yojana (PMAY): The scheme is meant for “Housing for all by 2022” and banks are advised to extend housing loan facility to common man residing in selected statutory towns for purchase or construction of house / flat or conversion of kutcha dwelling unit to pucca house. However, the beneficiaries should meet the following criteria with regard to income and carpet area of the proposed house/flat to avail interest subsidy under Credit Linked Subsidy Scheme (CLSS).

Category	Annual Income	Max. Carpet Area
Economically Weaker Section (EWS)	Up to `3 lakh	30 sq meters
Low Income Group (LIG)	`3 to `6 lakh	60 sq meters
Middle Income Group (MIG-I)	`6 to ` 12 lakh	120 sq meters
Middle Income Group (MIG-II)	`12 to `18 lakh	150 sq meters

The entry age of the applicant shall be minimum 21 years and maximum 60 years. The maximum loan allowed is `24 lakh subject to 4 times of gross annual income with 40% net take home pay. The interest rate is MCLR + 0.05% and the loan is repayable within 300 months including gestation period of 18 months. However, the repayment shall be within 70 years age of the borrower. The margin requirement is 10% for new house/flat and it is 20% & 30% for up to 10 years & above 10 years old house/flat respectively. The precondition to avail this facility is that the beneficiary of the family (Self/Spouse/unmarried children) should not own any dwelling unit in any part of the country. However, an adult earning member can be treated as a separate household. The house should be in the name of female head of the household or in the joint names of male head of the household and his wife. CLSS is available to the borrower for limit up to `6 lakh (irrespective of the loan sanctioned) at 6.50% for a period of 15 years or till tenure of the loan whichever is less. This works around `2.30 lakh interest subsidy per beneficiary. The EMI will be fixed duly taking the interest subsidy component upfront into consideration. National Housing Bank is acting as Central Nodal Agency for this scheme.

Micro Credit / SHG

Micro Credit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Banks have discretion to devise appropriate loan and savings products and the related terms and conditions including size of the loan, unit cost, unit size, maturity period, grace period, margins, etc. Such credit covers not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements. Banks, NBFCs, NGOs and other institutions/organizations are allowed to undertake activities relating to Micro Credit in India. The introduction of the 'Self Help Groups (SHG)' format and the nationalized banks' lending system helped accentuate the importance of the same.

SHG is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment thereof. It is aimed to inculcate saving habit and encourage thrift to undertake lending among the members. In the process, it boosts the confidence to carry out the activities with ease and paves the way for self-reliance. The membership of the group could be between 10 to 25 members. If more than 20 members are there, the group should be registered.

Pre-requisites for financing: Groups with 6 months of savings, regular meetings, regular thrift habit and habituated internal lending and 'A' or 'B' rating as per Critical Rating Index are eligible for bank finance.

Dose	Period	Regular loan	Debt Swapping	Housing
First	Having regular savings at least for 6 Months	4 times of savings / corpus or `50000/- whichever is higher Rural SHGs: 10 times	Minimum `25000/- or 50% regular loan limit whichever is higher subject to extent of debt. Minimum `50000/-	`20000/- per
	Minimum of 12 Months from the date of availment	of savings / corpus or `100000/- whichever	for rural SHGs and `75000/- for urban SHGs or 50% regular	member subject to maximum of `100000/- per group
Second	of first dose of finance.	is higher. In case of Urban SHGs, the eligibility is `1.50 lakh.	loan limit whichever is higher subject to extent of debt.	
Third & onwards	Minimum of 18 months from the date of availment of Second dose of finance.	Eligibility as per Micro Credit Plan (MCP)	40% of MCP or to the extent of debt whichever is lower subject to maximum of `200000/-	
Note: Minimum savings of the group should not be less than 10% of the loan amount.				

However, for Rural SHGs – the maximum amount allowed to each SHG Group including Debt Swapping and Housing is `1.75 lakhs, `2.50 lakhs and `5 lakhs under First, Second and third dose respectively. Similarly with regard to Urban SHGs, the maximum amount allowed to each SHG Group is `1.75 lakhs, `3.25 lakhs and `5 lakhs respectively. Recently, the upper ceiling limit is increased from `5 lakh to `10 lakh without collateral security for the groups undertaking income generation activities under agriculture/allied activities. Credit facility to SHGs up to `7.50 lakhs (with less than 36 months) and up to `10 lakh (Above 60 months) in other cases are classified under SME category.

In order to mitigate the hardships faced by SHGs with regard to documentation, Banks are advised to extend finance (renewals/fresh) by way of Cash Credit facility only. Further, Banks are advised to convert all outstanding SHG term loan accounts into Cash Credit immediately. The validity period of the limit is 5 years subject to annual review. No cheque book is issued to this account and no excess drawals /adhoc limits are allowed in these accounts.

Corpus includes Balance amount in SB account, Amount held as cash with authorized persons, Amount lent internally among members, Amount received as interest on loans from members, any other contribution received by the group like Grants, Donations and fund provided by Government

Debt Swapping: Financing to the group members for repayment of loans availed by them from non-institutional lenders i.e. Private Money lenders. It is only one time measure.

Reserve Bank of India (RBI) issued revised guidelines on Interest Subvention Scheme under Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM), stating that banks will provide funds to women Self Help Groups (SHGs) in rural areas at 7 per cent under the DAY-NRLM in current fiscal, 2017-18. These guidelines will be implemented by 21 public sector banks and 19 private banks. Women SHGs availing credit up to `3 lakh rupees will be eligible for this interest subvention scheme.

The AP State Government has introduced "Vaddi Leni Runalu (VLR)" scheme where the state Government reimburse the full interest for the SHG loans who repay the loans promptly and the reimbursement will be done to the group at half yearly intervals. However, this facility is limited to the loans up to `5 lakh only. The reimbursement is to be credited to group's savings bank account, but not to the SHG loan account.

Mandal Mahila Samakhyas consists of maximum 500 SHGs as members covering 20 to 30 Village Organisations (VOs) operating in a mandal. Vos/SHG Federation/MMS are to be registered under AP Mutually Aided Cooperative Societies Act 1995 to avail finance from Banks subject to Minimum two years of existence with audited balance sheet; "A" rating by External Agency i.e. Chartered Accountant; The maximum eligible amount is 10 times of the Networth of VOs (savings contributed by each SHG to VOs on monthly basis, interest earned on savings and internal lending, revolving fund if any) or 80% of Micro Credit Plan (MCP) whichever is lower subject to borrowing clause incorporated in the byelaws.

MICRO, SMALL AND MEDIUM ENTERPRISES (MSME)

The Small enterprises contribute nearly 40% of the country's industrial output and offer the largest employment after agriculture. Therefore, this sector presents an opportunity to the country to harness its local competitive advantages for achieving global dominance. In recognition of these aspects, Government of India enacted the MSMED Act in the year 2006. The activities of MSME are broadly classified into Manufacturing Enterprises and Service Enterprises.

Manufacturing Enterprises are those which are engaged in manufacturing or production of goods. These are defined in terms of investment in Plant & Machinery. Recently, activities such as Seed Processing (for genetic enhancement) involving collection of germplasm, cleaning, gravity separation, chemical treatment etc., and Composite unit in Poultry with Chicken (Meat) Processing are treated as Manufacturing units under MSME.

Service Enterprises are the enterprises engaged in providing or rendering of services. These are defined in terms of investment in Equipment. Recently activities such as Medical Transcription Service, Production of TV serials / program, Ripening of Raw Fruits under controlled conditions and Service Rating Agency are treated as Service Enterprises under MSME. The modified definitions of Micro, Small and Medium Enterprises are as under:

No	Category	Investment in Plant & Machinery/Equipment (`lakh)	
		Manufacturing	Service
1	Micro Enterprise	Up to 25	Up to 10
2	Small Enterprise	above 25 & up to 500	above 10 & up to 200
3	Medium Enterprise	above 500 & up to 1000	above 200 & up to 500

Small Enterprises: It includes all loans given to micro and small (manufacturing) enterprises engaged in manufacture / production / processing / preservation of goods, and micro and small (service) enterprises engaged in providing or rendering of services which include small road & water transport operators, small business, Professional & Self-employed persons and other service enterprises. Indirect finance to small enterprises shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and co-operatives of producers in this sector. As per recent RBI guidelines – Loans granted to private retail traders with credit limits not exceeding `20 lakh and loans to retail traders dealing in essential commodities (fair price shops) and consumer co-operative stores without any ceiling in credit limit are eligible for classification under Micro (service) or small (service) depending on investment in equipment criteria as mentioned above.

Medium Enterprises: Enterprises engaged in manufacture/production/ preservation of goods and whose investment in plant and machinery should be as per above said guidelines. Bank`s lending to medium enterprises will not be included for the purpose of reckoning under priority sector. Interest rates are charged as per rates prevailing at the time and are subject to change from time to Time. Rate of Interest is determined as per credit rating system for loans above `10 lakhs as per Internal Credit Risk Assessment Model. No collateral security or third party guarantee is insisted for loan up to `5 lakh and for Tiny Sector up to `25 lakh based on the good track record and financial position of the borrowing unit.

Book Debts: Out of the regular OCC limit, a sub-limit, maximum of 60%, can be allowed with 50% margin provided the book debts are not older than 180 days.

Standby Term Loan: Banks are allowed to sanction standby term loan to "A" and above rated borrowers subject to a cap of 20 lakh for acquiring additional machinery with 25% margin.

Composite loan (Term Loan and Working Capital) up to `100 lakhs should be processed under single window concept.

Interest Rate: Normally, the interest rates charged to MSME borrowers are lesser than those being charged other borrowers. Further reduction of interest rate is available to special category of Rice Mills, Dall Mills and Cotton Ginning Mills. A concession of 0.50% is offered to women MSME borrowers.

Collateral security: Banks are mandated not to accept collateral security in case of loans up to `10 lakhs extended to units in the Micro and Small Enterprises sector and all such loans are to be covered under Credit Guarantee Scheme. Banks may, on the basis of good track record and the financial position of the MSE units, increase the limit of dispensation of collateral requirement for loans up to 25 lakh (with the approval of the appropriate authority). Women entrepreneurs will be given further interest rebate of 0.50% irrespective of credit rating and size of the unit.

Subsidy: Units undergoing technology up-gradation are eligible for 15% Credit Linked Capital Subsidy Scheme (CLCSS). Units engaged in food processing are eligible for subsidy 25% of unit cost with maximum of ` 50 lakhs and units are located at difficult areas (J&K, HP, Sikkim, Andaman, NE States and tribal development project areas) are eligible for 33.33% with maximum of `75 lakhs.

Assessment: 25% of assessed turnover shall be fixed as working capital limit for the MSME units availing credit limits up to 600 lakh.

Targets: Banks may fix self set target for growth in advances to SME Sector in order to achieve a minimum 20% year on year growth in credit to SMEs with the objective to double the flow of credit to the SME sector within a period of 5 years. Further, banks should ensure that –

i)40% of the total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to `10 Lakh and micro (service) enterprises having investment in equipment up to `4 Lakh.

20% of the total advances to micro and small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above ` 10 Lakh & up to `25 lakh, and micro (service) enterprises with investment in equipment above `4 Lakh & up to `10 Lakh. Thus 60% of MSE advances should go to the Micro Enterprises. Further, banks are advised to

Achieve a 20 percent year-on-year growth in credit to Micro and Small enterprises to ensure enhanced credit flow.

Allocate 60% of MSE advances to the Micro Enterprises.

Achieve minimum 10% growth in number of Micro Enterprise accounts.

Pay focused attention in opening of more MSE branch offices at different MSE clusters and each lead bank of a district may adopt atleast one MSE cluster.

Communication of the bank's decision regarding the credit assistance is done promptly. As per Ministry of Finance, Government of India, all credit proposals for additional limit, rescheduling for loan or any other facility should be disposed in 15 days from the date of receipt of application at the branch. With regard to new cases for sanction, the time norm stipulated is 30 days from the date of receipt of application at the branch. No loan application is rejected without approval of the next higher authority.

SHG-Bank Linkage Programme

Self Help Groups have the potential to bring together the formal banking structure and the rural poor for mutual benefit. Studies conducted by NABARD in a few states to assess the impact of the linkage project have brought out encouraging and positive features like increase in loan volume of the SHGs, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100 per cent recovery performance, significant reduction in the transaction costs for both the banks and the borrowers etc., besides leading to a gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project is that about 85 per cent of the groups linked with banks were formed exclusively by women.

2. Recognizing the importance of SHG Bank linkage, banks have been advised to meet the entire credit requirements of SHG members, as envisaged in Paragraph 93 of the Union Budget announcement for the year 2008-09, made by the Honorable Finance Minister, wherein it was stated as under: "Banks will be encouraged to embrace the concept of Total Financial Inclusion. Government will request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping". Linking of SHGs with banks has thus been emphasized in the Monetary Policy Statements of Reserve Bank of India and Union Budget announcements from time to time and various guidelines have been issued to banks in this regard.

3. Banks should provide adequate incentives to their branches in financing the Self Help Groups (SHGs) and establish linkages with them, making the procedures simple and easy. The group dynamics of working of the SHGs need neither be regulated nor formal structures imposed or insisted upon. The approach to financing of SHGs should be totally hassle-free and may also include consumption expenditures. Accordingly, the following guidelines should be adhered to enable effective linkage of SHGs with the banking sector.

4. Opening of Savings Bank A/C

a) The SHGs, registered or unregistered, which are engaged in promoting savings habits among their members are eligible to open savings bank accounts with banks. These SHGs need not necessarily have already availed of credit facilities from banks before

3

opening savings bank accounts. The instructions of the Department of Banking Regulation in the Master Direction on KYC pertaining to SHG members (Part VI-Paragraph 43) shall be adhered to, while completing Customer Due Diligence (CDD)1 process.

b) Accordingly, the current instructions under Simplified norms for Self Help Groups (SHGs) mention that CDD of all the members of SHG as mentioned in the above Direction shall not be required while opening the savings bank account of the SHG. CDD of all the office bearers shall suffice. No separate CDD of the members or office bearers shall be necessary at the time of credit linking of SHGs.

5. Lending to SHGs

a) Bank lending to SHGs should be included in branch credit plan, block credit plan, district credit plan and state credit plan of each bank. Utmost priority should be accorded to the sector in preparation of these plans. It should also form an integral part of the bank's corporate credit plan.

b) As per operational guidelines issued by NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, loans may be given beyond the limit of four times the savings as per the discretion of the bank.

c) A simple system requiring minimum procedures and documentation is a precondition for augmenting flow of credit to SHGs. Banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse credit by delegating adequate sanctioning powers to branch managers. The loan application forms, procedures and documents should be made simple. It would help in providing prompt and hassle-free credit.

6. Interest rates

The banks would have the discretion to decide on the interest rates applicable to loans given to Self Help Groups/member beneficiaries.

7. Service/ Processing charges

No loan related and ad hoc service charges/inspection charges should be levied on priority sector loans up to ₹ 25,000. In the case of eligible priority sector loans to SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole.

8. Separate Segment under priority sector

In order to enable the banks to report their SHG lending without difficulty, it is decided that the banks should report their lending to SHGs for on-lending to members of SHGs under the respective categories, viz. 'Advances to SHGs' irrespective of the purposes for which the loans have been disbursed to the SHG members. Priority Sector loans to SHGs are considered under "Weaker Sections" category.

9. Presence of defaulters in SHGs

Defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks, provided the SHG is not in default. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

10. Capacity Building and Training

a) Banks may initiate suitable steps to internalize the SHGs linkage project and organize exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/sensitization programmes may be conducted for their middle level controlling officers as well as senior officers.
b) Banks shall refer to instructions on Financial Literacy by FLCs and rural branches – Policy review vide Circular FIDD.FLC.BC.No.22/12.01.018/2016-17 dated March 02, 2017 conducting tailored programs targeting SHGs.
11. Monitoring and Review of SHG Lending
Considering the potential of SHGs, banks shall closely monitor the progress regularly at various levels. In order to give a boost to the ongoing SHG bank linkage programme for credit flow to the unorganized sector, monitoring of SHG bank linkage programme shall be a regular item on the agenda for discussion at the SLBC and DCC meetings. It should be
5
reviewed at the highest corporate level on a quarterly basis. Further, progress of the programme may be reviewed by banks at regular intervals. The progress under SHG-BLP, as prescribed vide RBI letter FIDD.CO.FID.No.3387/12.01.033/2017-18 dated April 26, 2018 shall be reported to NABARD (Micro Credit Innovations Department), Mumbai, on a quarterly basis, and the returns in the
prescribed format shall be submitted within 15 days from due date.
12. Reporting to CICs
Recognizing the importance of credit information reporting in respect of the SHG members for financial inclusion, banks are advised to adhere to the guidelines issued by Department of Banking Regulation on Credit information reporting in respect of Self Help Group (SHG) members dated June 16, 2016 and Credit information reporting in respect of Self Help Group (SHG) members dated January 14, 2016.

Financial inclusion

Financial inclusion is where individuals and businesses have access to useful and affordable financial products and services that meet their needs that are delivered in a responsible and sustainable way. Financial inclusion is defined as the availability and equality of opportunities to access financial services. Those that promote financial inclusion argue that financial services can be viewed as having significant positive externalities when more people and firms participate. One of its aims is to get the unbanked and underbanked to have better access to financial services. The availability of financial services that meet the specific needs of users without discrimination is a key objective of financial inclusion. For example, In the United States this condition represents a third of the Hispanic community born in America and half the foreign Hispanic community living in the United States remain unbanked For this example, give financial services is key in order to growth as a society.

It has been estimated in 2013 that 2 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions. For example, in Sub-Saharan Africa, % of adults have a bank account even though Africa's formal financial sector has grown in recent years.

There is some scepticism from some experts about the effectiveness of financial inclusion initiatives.. Research on microfinance initiatives indicates that wide availability of credit for micro-entrepreneurs can produce informal intermediation, an unintended form of entrepreneurship.

The term "financial inclusion" has gained importance since the early 2000s, a result of identifying financial exclusion and it is a direct correlation to poverty. The United Nations defines the goals[6] of financial inclusion as follows:

Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance.
Sound and safe institutions governed by clear regulation and industry performance standards.
Financial and institutional sustainability, to ensure continuity and certainty of investment.
Competition to ensure choice and affordability for clients.
Former United Nations Secretary-General Kofi Annan, on 29 December 2003, said: ”The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge is to address the constraints that exclude people from full participation in the financial sector. Together, we can build inclusive financial sectors that help people improve their lives.” More recently, Alliance for Financial Inclusion (AFI) Executive Director Alfred Hannig highlighted on 24 April 2013 progress in financial inclusion during the IMF-World Bank 2013 Spring Meetings: "Financial inclusion is no

longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership."

In partnership with the National Bank for Agriculture and Rural Development, the UN aims to increase financial inclusion of the poor by developing an appropriate financial products for them and increasing awareness on available financial services strengthening financial literacy, particularly among women. The UN's financial inclusion product is financed by the United Nations Development Programme.[8]

Initiatives by country

Financial inclusion in the Philippines

Four million unbanked Filipinos are seen to benefit from the nascent credit scoring industry, a development that is seen to serve the people that is classified at the bottom of the economy an easy access to credit once the service is available to the public. Marlo R. Cruz, president and chief executive officer of CIBI Information, Inc. (CIBI) as one of the accredited credit bureaus in the Philippines, highlighted that this is expected to unlock much economic potential in sectors of the economy that are crucial for inclusive growth.

As per Cruz, "Many people still do not realize that the value of having a credit opportunity is synonymous to generating financial power. Creditworthiness is the same as to owning a keycard that can be used in navigating to the society of better possibilities."

The Bangko Sentral ng Pilipinas (BSP) reports on Financial Inclusion Initiatives and Financial Inclusion in the Philippines summarizes the country’s accomplishments and significant milestones in financial inclusion. These reports show that 4 out of 10 Filipinos saved money in 2015 (up from 2 out of 10 in 2009). Among Filipino adults, 24.5% never saved and only 31.3% (up from 26.6%) have an account at a formal financial institution. The lack of enough money was cited as the main reason for not having a bank account.

While there has been significant progress, there is still much to be done.

As an emerging country with a sizeable number of people living in poverty, access to financial services is an important challenge. Based on a March 18, 2016 report from the Philippine Statistics Authority, the country’s 2015 poverty incidence (the proportion of people below the poverty line versus the total population) is at 26.3% while the subsistence incidence (the proportion of Filipinos in extreme or subsistence poverty) is at 12.1%. This means that there are around 26 million Filipinos who are still living below the poverty line.

Financial inclusion in India

This section may require cleanup to meet Wikipedia's quality standards. No cleanup reason has been specified. Please help improve this section if you can. (May 2010) (Learn how and when to remove this template message)

In the Indian context, the term ‘financial inclusion’ was used for the first time in April 2005 in the Annual Policy Statement presented by Y.Venugopal Reddy, the then governor, Reserve Bank of India.[12] Later on, this concept gained ground and came to be widely used in India and abroad. While recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, banks were urged to review their existing practices to align them with the objective of financial inclusion.[12] The Report of the Internal Group to Examine Issues relating to Rural Credit and Microfinance (Khan Committee) in July 2005 drew strength from this announcement by Governor Y. Venugopal Reddy in the Annual Policy Statement for 2005-06 wherein he had expressed deep concern on the exclusion of vast sections of the population from the formal financial system.[13] In the Khan Committee Report, the RBI exhorted the banks with a view to achieving greater financial inclusion to make available a basic "no-frills" banking account. Khan Committee recommendations were incorporated into the mid-term review of the policy (2005–06).[14] Financial inclusion again featured later in 2005 when it was used by K.C. Chakraborthy, the chairman of Indian Bank. Mangalam, Puducherry became the first village in India where all households were provided banking facilities. Norms became less strict for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories such as Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. The Indian Reserve Bank vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy, low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

The government of India recently announced “Pradhan Mantri Jan Dhan Yojna,”[15] a national financial inclusion mission which aims to provide bank accounts to at least 75 million people by January 26, 2015. To achieve this milestone, it’s important for both service providers and policy makers to have readily available information outlining gaps in access and interactive tools that help better understand the context at the district level. MIX designed the FINclusion Lab India FI workbook[16] to support these actors as they craft strategies to achieve these goals.

Several Startups are working towards increasing Financial Inclusion in India by organising various large unorganised sectors where payments primarily happen in Cash, instead of a bank transaction.

Recently, the government of India came up with a policy under the name "rupee exchange" to exchange higher notes with the intent of: clamping down on tax defaulters, track down corrupt officers (by rendering valueless heavy cash stashed away secretly) and generally restoring sanity to the economic system. First off it is alarming that despite the fact that India's CRISIL index is in excess of 40% and it is reputed to be heavy on technology, over 85% of its financial transactions are cash based. While income and inequality gaps will widen anyway, it is recommended that India embraces - proposed - as a matter of policy financial inclusion[

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit. Some of these steps are:

Opening of no-frills accounts: Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Relaxation on know-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Engaging business correspondents (BCs): In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs. India map of Financial Inclusion by MIX provides more insights on this.[18] In the grass-root level, the Business correspondents (BCs), with the help of Village Panchayat (local governing body), has set up an ecosystem of Common Service Centres (CSC). CSC is a rural electronic hub with a computer connected to the internet that provides e-governance or business services to rural citizens.

Use of technology: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

GCC: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to `25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks’ customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

Simplified branch authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.

Opening of branches in unbanked rural centres: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

Financial inclusion index

On June 25, 2013, CRISIL, India's leading credit rating and research company launched an index to measure the status of financial inclusion in India. The index- Inclusix- along with a report,[20] was released by the Finance Minister of India, P. Chidambaram[21] at a widely covered program at New Delhi. CRISIL Inclusix is a one-of-its-kind tool to measure the extent of inclusion in India, right down to each of the 632 districts. CRISIL Inclusix is a relative index on a scale of 0 to 100, and combines three critical parameters of basic banking services—branch penetration, deposit penetration, and credit penetration—into one metric.

The report highlights many hitherto unknown facets of inclusion in India. It contains the first regional, state-wise, and district-wise assessments of financial inclusion ever published, and the first analysis of trends in inclusion over a three-year timeframe. Some key conclusions from the study are:[22]

The all-India CRISIL Inclusix score of 40.1 is low, though there are clear signs of progress– this score has improved from 35.4 in 2009.

Deposit penetration is the key driver of financial inclusion– the number of savings accounts (624 million), is almost four times the number of loan accounts (160 million).

618 out of 632 districts reported an improvement in their scores during 2009-2011.

The top three states and Union Territories are Puducherry, Chandigarh, and Kerala; the top three districts are Pathanamthitta (Kerala), Karaikal (Puducherry), and Thiruvananthapuram (Kerala).

Controversy

Financial inclusion in India is often closely connected to the aggressive micro credit policies that were introduced without the appropriate regulations oversight or consumer education policies. The result was consumers becoming quickly over-indebted to the point of committing suicide,lending institutions saw repayment rates collapse after politicians in one of the country's largest states called on borrowers to stop paying back their loans, threatening the existence of the entire 4 billion a year Indian microcredit industry.[This crisis has often been compared to the mortgage lending crisis in the US.

The challenge for those working in the financial inclusion field has been to separate micro-credit as only one aspect of the larger financial inclusion efforts and use the Indian crisis as an example of the importance of having the appropriate regulatory and educational policy framework in place.

Pradhan Mantri Jan Dhan Yojana

Main article: Pradhan Mantri Jan Dhan Yojana

Indian Prime Minister Narendra Modi announced this scheme for comprehensive financial inclusion on his first Independence Day speech on 15 August 2014. The scheme was formally launched on 28 August 2014with a target to provide 'universal access to banking facilities' starting with Basic Banking Accounts with overdraft facility of Rs.5000 after six months and RuPay Debit card with inbuilt accident insurance cover of Rs. 1 lakh and RuPay Kisan Card & in next phase, micro insurance & pension etc. will also be added. In a run up to the formal launch of this scheme, the Prime Minister personally mailed to CEOs of all banks to gear up for the gigantic task of enrolling over 7.5 crore (75 million) households and to open their accounts. In this email he categorically declared that a bank account for each household was a "national priority".

On the inauguration day of the scheme, 1.5 Crore (15 million) bank accounts were opened.

Financial inclusion in Tanzania

With a population of 55.57 million people and only 19% of its population enrolled into an account with a formal bank, Tanzania remains largely unbanked. [30]Poverty alleviation is often linked with a given population’s access to formal banking instruments, and mobile money can serve as a crucial bridge for offering savings, credit, and insurance to Tanzania’s rural population.

In 2006 just 11% of Tanzanians had access to a financial account, but with the advent of digital financial services that number has increased to 60%. The current situation in Tanzania has improved steadily over the past 12 years with the introduction of mobile money by Tanzania's main telecom providers. The quick expansion of financial inclusion in Tanzania is almost entirely due to the proliferation of mobile banking options. While a recent cooling effect has taken place due to a government crackdown on counterfeit SIM cards, over half of Tanzania's population has access a degree of financial services through mobile banking.

Tracking financial inclusion through budget analysis

While financial inclusion is an important issue, it may also be interesting to assess whether such inclusion as earmarked in policies are actually reaching the common beneficiaries. Since the 1990s, there has been serious efforts both in the government agencies and in the civil society to monitor the fund flow process and to track the outcome of public expenditure through budget tracking. Organisations like International Budget Partnership (IBP) are undertaking global surveys in more than 100 countries to study the openness (transparency) in budget making process. There are various tools used by different civil society groups to track public expenditure. Such tools may include performance monitoring of public services, social audit and public accountability surveys. In India, the institutionalisation of Right to information (RTI) has been a supporting tool for activists and citizen groups for budget tracking and advocacy for social inclusion.

Financial inclusion and bank stability

The theoretical and empirical evidences on the link between financial inclusion and bank stability is limited. Banking literature indicates several potential channels through which financial inclusion may influence bank stability. A recent study has appeared in Journal Economic Behavior & Organization finds a robust positive association between financial inclusion and bank stability. The authors show that the positive association is more pronounced with those banks that have higher retail deposit funding share and lower marginal costs of providing banking services; and also with those that operate in countries with stronger institutional quality.

Why do we need Financial Inclusion?

A large section of the society still remains unbanked. Unbanked people are people who only have the basic transaction bank accounts. These are people who have secured the traditional tools for conducting transactions but aren't privy enough to digital incorporation of the same.

According to the World Bank, around 2 Billion people don't use formal financial services and more than 50% of adults in the poorest households are unbanked.

This has led to a lot of financial instability and pauperism among the people of lower income group who do not have access to financial services and products. There are so little banks, especially in rural areas, that these unbanked users carry out transactions either in cash or cheques, making them vulnerable to theft and fraud.

This is why we need Financial Inclusion.

What are some of the measures taken to achieve greater Financial Inclusion?

In India the term Financial inclusion was used for the first time in April 2005 by the then Governor of RBI: Y Venugopal Reddy. There are several measures taken to achieve greater Financial Inclusion, especially by the Government, World Bank and the Reserve Bank of India, such as facilitating no frills accounts and GCCs. Here are some of the initiatives taken:

Opening BSBD (Basic Savings Bank Deposit) accounts

The Reserve Bank has advised all the banks to open a basic account with facilities such as no minimum balance, receipt or credit of money through electronic payment channels, ATM cards facilities, deposit and withdrawal of cash at bank branches as well as the ATM.

Relaxation on know-your-customer (KYC) norms

To make opening of bank accounts easy, especially accounts with low balance such as not exceeding 50,000 and aggregate credits in the accounts not exceeding rupees 1 lakh a year. Banks are also allowed to use aadhar card as proof of address and identity.

Domestic Scheduled Commercial Banks (SCBs) are permitted to open branches in Tier-2 to Tier-6 centers with population under 1 lakh under general permission subject to reporting, to address the issue of uneven spread of bank branches. In North-eastern states and Sikkim, the domestic SCBs can open branches without permission from the RBI.

Opening branches in unbanked rural areas

RBI has directed banks to allocate at least 25% of their branches to be opened in Tier-5 and Tier-6 centers during the year.

Licensing of new banks

The business models aimed at furthering financial inclusion, would be looked into closely in processing applications for bank licensing.

The RBI also urged banks to review their existing objectives and practices in order to align them with the objectives of Financial Inclusion. It also permitted banks to use NGOs and SHGs, microfinance institutions and civil society organizations as intermediaries to facilitate financial and banking services.

RBIs vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT.

What are some other measures taken?
Thanks to use of technology in Finance industry, the void of inaccessibility to Financial services has been filled.
Mangalam in Puducherry became the first village in India where all the households were provided with facilities of Banking.
General Credit Cards (GCCs) were issued to the poor, low-income group and disadvantaged to help them access easy credit.
A 100% Financial Inclusion campaign was launched by commercial banks in different regions. This resulted in states or UTs like Puducherry, Kerala and Himachal Pradesh announcing a 100% financial inclusion in their districts.
Many startups were launched to work towards increasing the Financial Inclusion. For instance, Fintech is working to create mobile payment and micro-lending facilities for financially underbanked users.
There are many online payments and mobile payment services to facilitate ease with which unbanked people can immerse themselves in the digital economy, like AliPay and Paytm, and foster financial inclusiveness.
These companies have also come up with innovations to promote transparency in their dealings with customers to gain their trust.

Financial Inclusion in India – An Assessment

"Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom.

Sometimes it falls upon a generation to be great. You can be that great generation. Let your greatness blossom. Of course, the task will not be easy. But not to do this would be a crime against humanity, against which I ask all humanity now to rise up." - **Nelson Mandela**

“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.” - **Franklin D. Roosevelt**

“Poverty is the worst form of violence.” - **Mahatma Gandhi**

“If the misery of the poor be caused not by the laws of nature, but by our institutions, great is our sin.” **- Charles Darwin**

Introduction

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of
scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme,
formation of self-help groups, permitting BCs/BFs to be appointed by banks to
provide door step delivery of banking services, zero balance BSBD accounts, etc.
The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population.

The speech is organized infive sections:

Section 1 - Definitions

Section 2 - Extent of Financial Exclusion

Section 3 – RBI Policy Initiatives and Progress in Financial Inclusion

Section 4 – Stakeholder-wise Issues in Financial Inclusion

Section 5 – Conclusion and Way forward

The assistance provided by Shri M. Sreeramulu, AGM, DNBS, RBI, CO is heartily acknowledged.

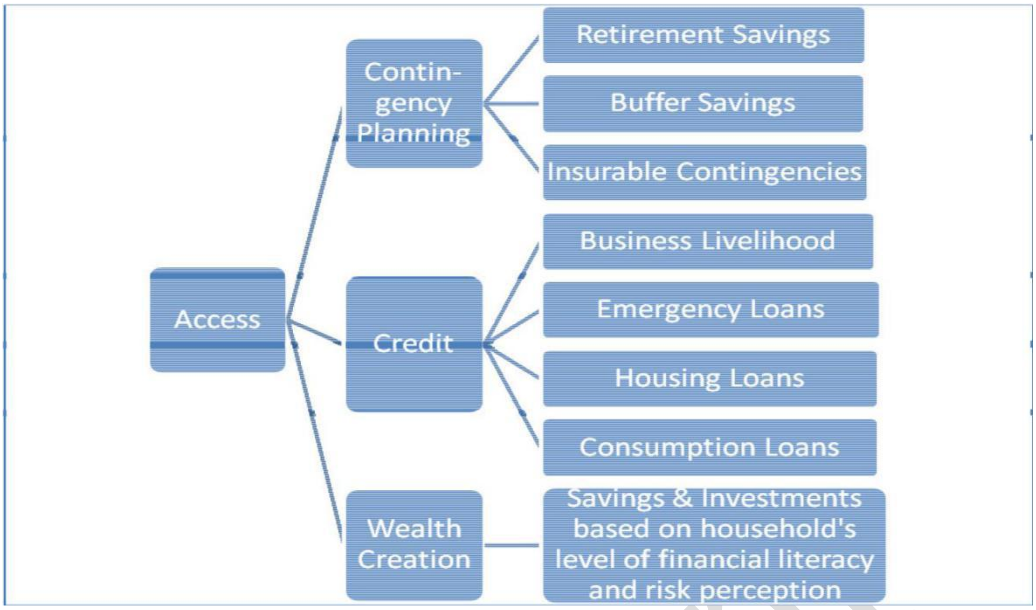
Section - 1

Definitions

1.1. Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan).

1.2. Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (The Committee on Financial Sector Reforms, Chairman: Dr.Raghuram G. Rajan). Household access to financial services is depicted in Figure I.

Figure I: Household Access to Financial Services



Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. RaghuramRajan),

1.3. The essence of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc.

Why Financial Inclusion ?

1.4. Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development. Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Financial inclusion also mitigates the exploitation of vulnerable sections by the usurious money lenders by facilitating easy access to formal credit.

1.5. In rural areas, the Gini's[2] coefficient rose to 0.28 in 2011-12 from 0.26 in 2004-05 and during the same period to an all-time high of 0.37 from 0.35 in urban areas.

Section 2

Extent of Financial Exclusion

In this section, the extent of financial exclusion from different perspectives / angularities is presented based on five different data sources viz.:

(a) NSSO 59thRound Survey Results,
(b) Government of India Population Census 2011,
(c) CRISIL-Inclusix
(d) RBI Working Paper Series Study on 'Financial Inclusion in India: A Case-study of West Bengal' and
(e) World Bank 'Financial Access Survey' Results.

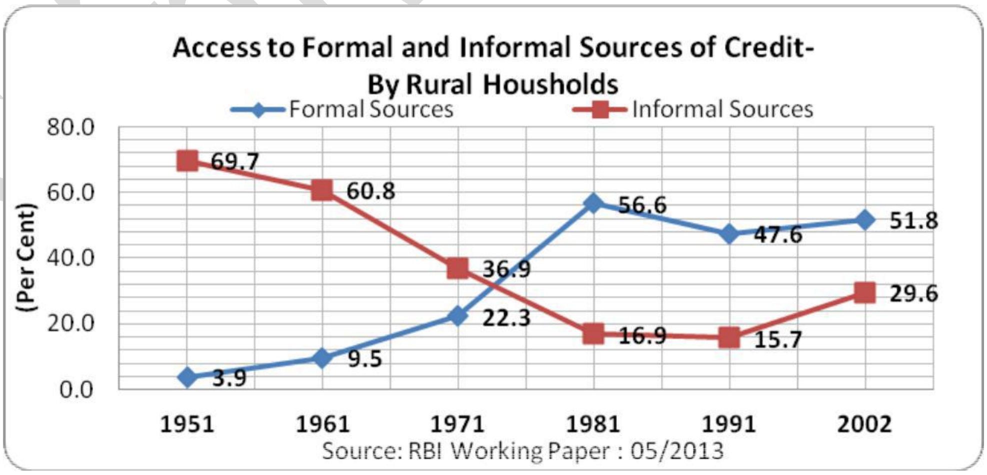
---

[2] Source: National Sample Survey on household consumption expenditure.
The coefficient ranges from zero to one, with zero representing perfect equality and one showing perfect inequality.

2.1. NSSO 59th Round Survey Results[3]

- 51.4% of farmer households are financially excluded from both formal/ informal sources.
- Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources.
- Overall, 73% of farmer households have no access to formal sources of credit.
- Across regions, financial exclusion is more acute in Central, Eastern and North-Eastern regions. All three regions together accounted for 64% of all financially excluded farmer households in the country. Overall indebtedness to formal sources of finance of these three regions accounted for only 19.66%.
- However, over the period of five decades, there has been overall improvement in access to formal sources[4] of credit by the rural households (Chart 1).

Chart 1: Access to Formal and Informal Sources



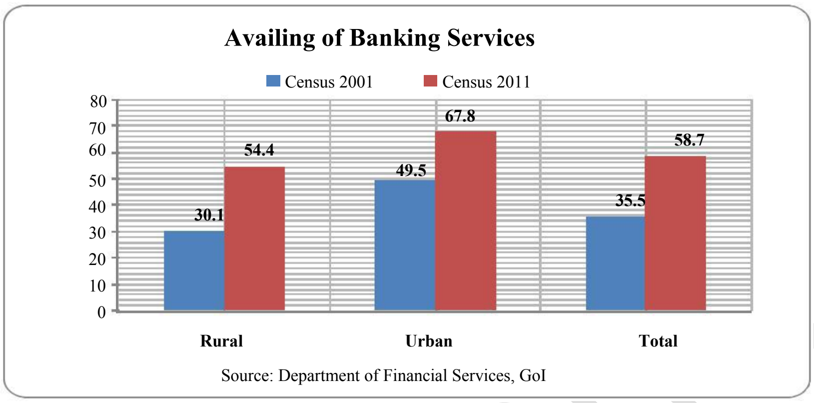
2.2. Government of India Population Census 2011

- As per census 2011, only 58.7% of households are availing banking services in the country. However, as compared with previous

[3] All India Debt and Investment Survey, NSSO 59th Round
[4] Formal sources include credit from SCBs (including RRBs) and credit from Co-op society/bank and informal sources include credit from agricultural and professional money lenders.

census 2001, availing of banking services increased significantly largely on account of increase in banking services in rural areas (Chart 2).

Chart 2: Availing of Banking Services

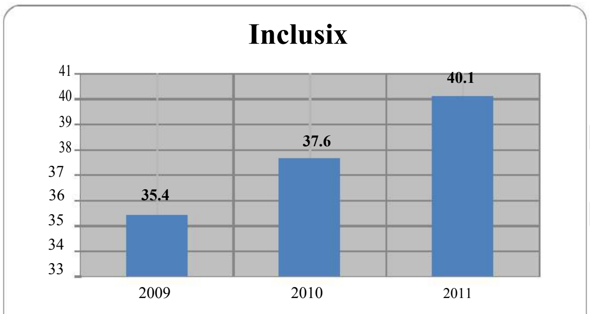


Source: Department of Financial Services, GoI

2.3. CRISIL Financial Inclusion Index (Inclusix)

- In June 2013, CRISIL first time published a comprehensive financial inclusion index (viz.,Inclusix). For constructing the index, CRISIL identified three critical parameters of basic banking services namely branch penetration[5], deposit penetration[6] and credit penetration[7].
- The CRISIL Inclusix indicate that there is an overall improvement in the financial inclusion in India (Chart 3).
- CRISIL –Inclusix (on a scale of 100) increased from 35.4in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011.

Chart 3: CRISIL - Inclusix



Source: CRISIL

[5] Bank branch penetration is measured as number of bank branches per one lakh population
[6] Measured as number of saving deposit accounts per one lakh population
[7] Average of three measures (namely number of loan accounts per one lakh population, number of small borrower loan accounts per one lakh population and number of agriculture advances per one lakh population) used for credit penetration.

2.4. RBI Working Paper Study

- Sadhan Kumar[8] (2011) worked out an Index on financial inclusion (IFI) based on three variables namely penetration (number of adults having bank account), availability of banking services (number of bank branches per 1000 population) and usage (measured as outstanding credit and deposit). The results indicate that Kerala, Maharashtra and Karnataka has achieved high financial inclusion (IFI >0.5), while Tamil Nadu, Punjab, A.P, H.P, Sikkim, and Haryana identified as a group of medium financial inclusion (0.3 <IFI<0.5) and the remaining states have very low financial inclusion.

2.5. World Bank 'Financial Access Survey' Results

- From the table 1 given below, it would be observed that in our country, financial exclusion measured in terms of bank branch density, ATM density, bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world…

Table 1: Select Indicators of Financial Inclusion, 2011

S.No	Country	Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
		Per 1000 KM		Per 0.1 Million		as % to GDP	
1	**India**	**30.43**	**25.43**	**10.64**	**8.9**	**68.43**	**51.75**
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07	...	18.8	...	80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
8	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
9	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
10	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
11	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
12	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
13	UK	52.87	260.97	24.87	122.77	406.54	445.86
14	USA	9.58	...	35.43	...	57.78	46.83
15	Swtzerland	84.53	166.48	50.97	100.39	151.82	173.26
16	France	40.22	106.22	41.58	109.8	34.77	42.85

Source: Financial Access Survey, IMF; Figures in respect of UK are as on 2010

[8] RBI Working Paper Series (WPS (DEPR):8/2011), Sadhan Kumar Chattopadhyay

Section – 3

3.1. Financial Inclusion – RBI Policy Initiatives

™ RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country. Further, for achieving the targeted goals, RBI has created conducive regulatory environment and provided institutional support for banks in accelerating their financial inclusion efforts (Box-I).

Box-I :Financial Inclusion Initiatives

- Advised all banks to open ***Basic Saving Bank Deposit (BSBD)*** accounts with minimum common facilities such as no minimum balance, deposit and withdrawal of cash at bank branch and ATMs, receipt/ credit of money through electronic payment channels, facility of providing ATM card.
- ***Relaxed and simplified KYC norms*** to facilitate easy opening of bank accounts, especially for small accounts with balances not exceeding Rs. 50,000 and aggregate credits in the accounts not exceeding Rs. one lakh a year. Further, banks are advised not to insist on introduction for opening bank accounts of customers. In addition, banks are allowed to use Aadhar Card as a proof of both identity and address[9].
- ***Simplified Branch Authorization Policy***, to address the issue of uneven spread bank branches, domestic SCBs are permitted to freely open branches in Tier 2 to Tier 6 centers with population of less than 1 lakh under general permission, subject to reporting. In North-Eastern Sates and Sikkim domestic SCBs can open branches without having any permission from RBI. With the objective of further liberalizing, general permission to domestic scheduled commercial banks (other than RRBs) for opening branches in Tier 1 centres, subject to certain conditions.
- ***Compulsory Requirement of Opening Branches in Un-banked Villages***, banks are directed to allocate at least 25% of the total number of branches to be opened during the year in un-banked (Tier 5 and Tier 6) rural centers.
- ***Opening of intermediate brick and mortar structure***, for effective cash management, documentation, redressal of customer grievances and close supervision of BC operations, banks have been advised to open intermediate structures between the present base branch and BC locations. This branch could be in the form of a low cost simple brick and mortar structure consisting of minimum infrastructure such core banking solution terminal linked to a pass book printer and a safe for cash retention for operating larger customer transactions.
- Public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010.

[9]Although RBI has relaxed KYC norms by considering Aadhar Card as a proof of both identity and address, large number of people still are not having Aadhaar Cards and incidentally, Supreme Court ruled that the centre and states should not insist on Aadhaar cards for providing essential services.

These policies aim at keeping self-set targets in respect of rural brick and mortar branches opened, BCs employed, coverage of un-banked villages with population above 2000 and as well as below 2000, BSBD accounts opened, KCCs, GCCs issued and others. RBI has been monitoring these plans on a monthly basis.

- Banks have been advised that their ***FIPs should be disaggregated and percolated down up to the branch level***. This would ensure the involvement of all stakeholders in the financial inclusion efforts.
- In June 2012, revised guidelines on ***Financial Literacy Centres (FLCs)***. Accordingly, it was advised that FLCs and all the rural branches of scheduled commercial banks should scale up financial literacy efforts through conduct of outdoor Financial Literacy Camps at least once a month, to facilitate financial inclusion through provision of two essentials i.e. 'Financial Literacy' and easy 'Financial Access'. Accordingly, 718 FLCs have been set up as at end of March 2013. A total of 2.2 million people have been educated through awareness camps / choupals, seminars and lectures during April 2012 to March 2013.

3.2. Recent Measures –

- **Licensing of New Banks**: The present round of licensing new banks is essentially aimed at giving further fillip to financial inclusion efforts in our country. Innovative business models aimed at furthering financial inclusion efforts would be looked into closely in processing applications for banking license. Financial inclusion plan would be an important criterion for procuring new bank licenses (Dr. D Subbarao).
- **Discussion Paper on Banking Structure in India – The Way Forward**: The RBI has put out a discussion paper in August 2013 on Banking Structure for public comments. One of the main issues relates to "Differentiated Banking Licenses". The subject of licensing 'small banks and financial inclusion' has been discussed therein. A view will be taken by RBI after factoring in the comments/suggestions received from the general public.
- In this context, it needs to be mentioned that Urban Co-operative Banks (UCBs), Regional Rural Banks (RRBs) and Local Area Banks (LABs) numbering 1606, 64, and 4 respectively are, in fact, Small Finance Banks operating in this country. These apart, there is a 3- Tier rural co-operative structure with State Co-operative Central Banks (SCCBs) at the apex, District Central Co-operative Banks(DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACs)

  at the grass root level, which number 31, 371 and 92,432 respectively. Furthermore, we have around 12,225 NBFCs as on March 2013, which could be conceptually construed as semi-banks undertaking predominantly credit/investment activities.

3.3. Progress in Financial Inclusion

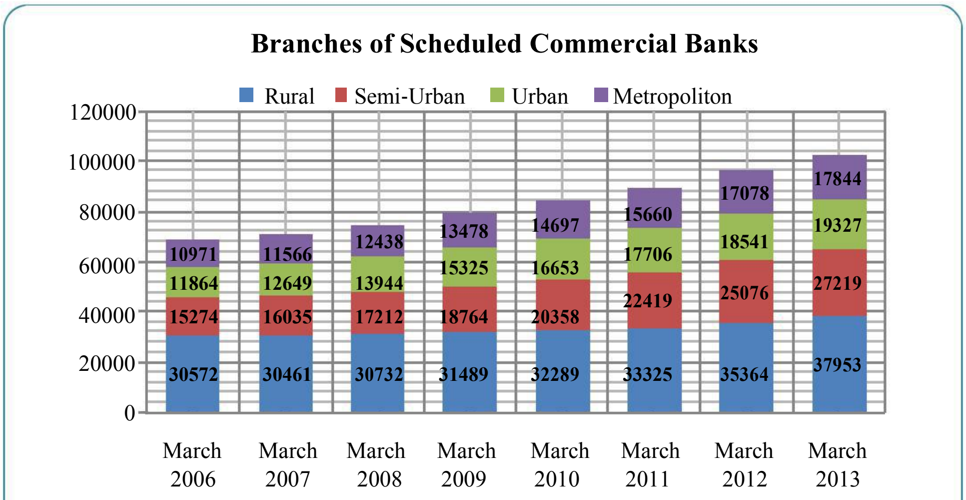
- Progress of financial inclusion since the launch of financial inclusion plans clearly indicates that banks are progressing in areas like opening of banking outlets, deploying BCs, opening of BSBD accounts, grant of credit through KCCs and GCCs. Detailed trends are furnished in the following charts.

3.3.1. Number of Branches Opened (including RRBs)

- Due to RBI's concerted efforts since 2005, the number of branches of Scheduled Commercial Banks increased manifold from 68,681 in March 2006 to 1,02,343 in March 2013, spread across length and breadth of the country (Chart 4).

™ In rural areas, the number of branches increased from 30,572 to 37,953 during March 2006 to March 2013. As compared with rural areas, number of branches in semi-urban areas increased more rapidly.

Chart 4: Branches of Scheduled Commercial Banks

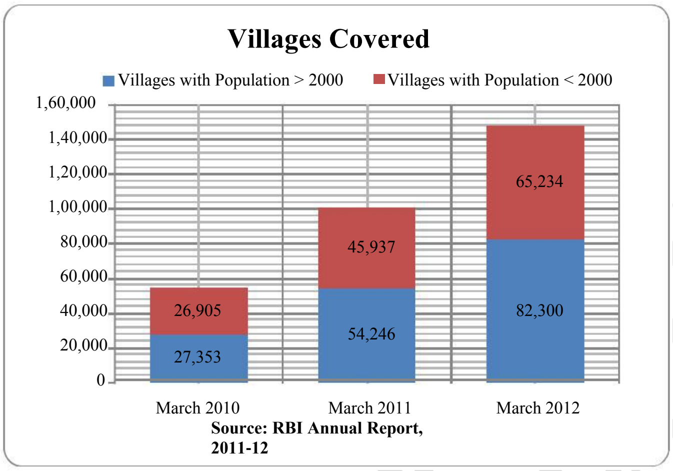


Source: Basic Statistical Returns, RBI and DFS, GoI

3.3.2. Villages Covered:

™ The number of banking outlets in villages with population more than 2000 as well as less than 2000 increased consistently since March 2010 (Chart 5).

Chart 5: Villages Covered



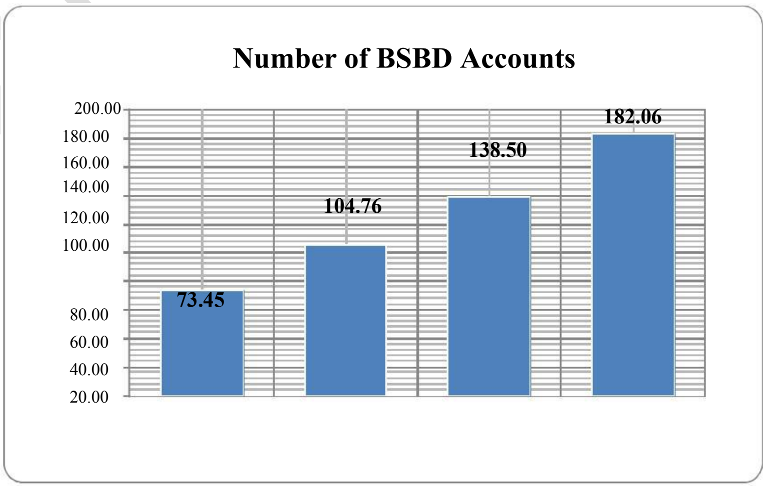
3.3.3. Total Bank Outlets (including RRBs)

™ Total number of banking outlets in villages increased from 67,694 in March 2010 to 2,68,454 in March 2013 (increased around 4 times during the period of three years). Of total branches, banking outlets through BCs increased from 34,174 to 2,21,341 during the same period (increased around 6.5 times).

3.3.4. BSBD Accounts Opened

™ The number of BSBD accounts opened increased from 73.45 million in March 2010 to 182.06 million in March 2013 (Chart 6).

Chart 6: Number of BSBD Accounts



0.00

March 2010 March 2011 March 2012 March 2013

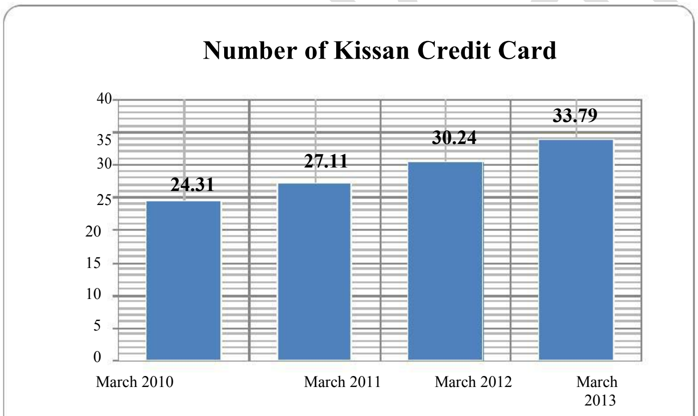
Source: RBI Annual Report, 2012-13

TM RBI advised banks to provide small overdrafts in BSBD accounts. Accordingly up to March 2013, 3.95 million BSBD accounts availed OD facility of Rs. 1.55 billion (These figures respectively, were 0.18 million and 0.10 billion in March 2010).

3.3.5. Kisan Credit Cards (KCC) Issued:

TM Banks have been advised to issue KCCs to small farmers for meeting their credit requirements. Up to March 2013, the total number of KCCs issued to farmers remained at 33.79 million with a total outstanding credit of Rs.2622.98 billion (Chart 7).

Chart 7: Number of KCCs

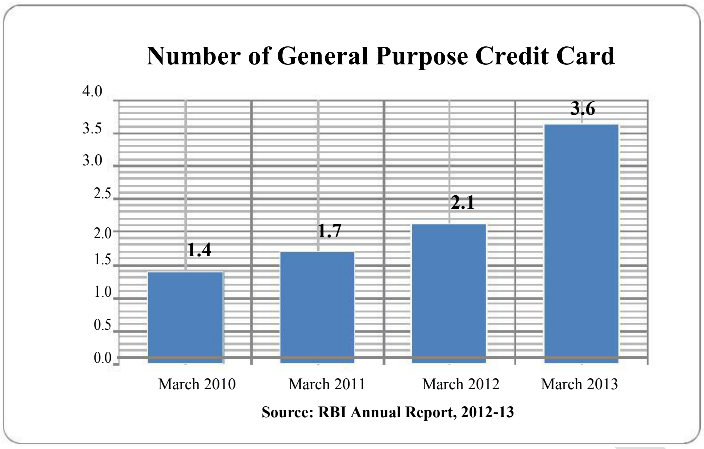


Source: RBI Annual Report, 2012-13

3.3.6. General Credit Cards (GCC) Issued:

TM Banks have been advised to introduce General Credit Card facility up to Rs. 25,000/- at their rural and semi-urban branches. Up to March 2013, banks had provided credit aggregating to Rs.76.34 billion in 3.63 million GCC accounts (Chart 8).

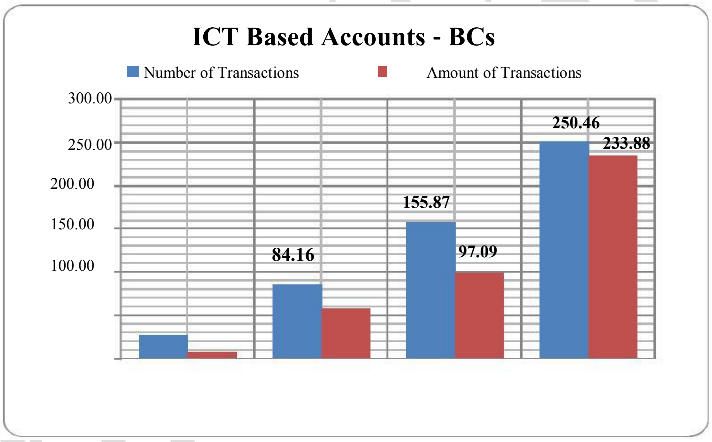
Chart 8: Number of KCCs



3.3.7. ICT Based Accounts - through BCs

- In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT based banking services – through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions.
- The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs.6.92 billion to Rs.233.88billion during the same period (Chart 9).

Chart 9: ICT Based Accounts - BCs



50.00 26.52 6.92 58.00

0.00

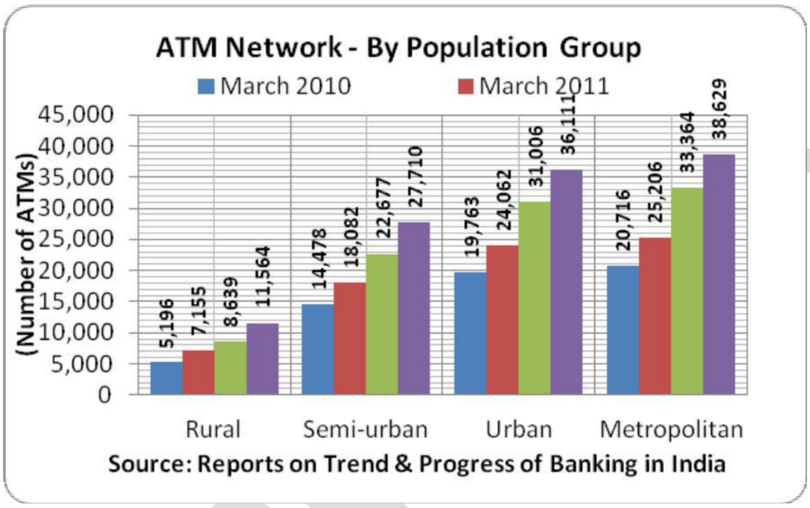
March 2010 March 2011 March 2012 March 2013

Source: Annual Report of RBI

3.3.8. Expansion of ATM Network:

™ The total number of ATMs in rural India witnessed a CAGR of 30.6% during March 2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013 (Chart 10)

Chart 10: ATM Network – By Population Group

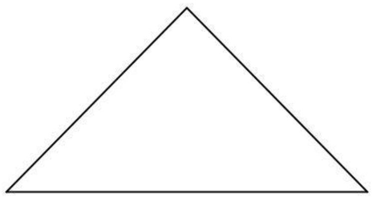


3.3.9. Financial Literacy Initiatives

Financial education, financial inclusion and financial stability are three elements of an integral strategy, as shown in the diagram below. While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. Going forward, these two strategies promote greater financial stability.

<u>The Financial Tripod</u>

Financial Education



Financial Inclusion **Financial Stability**

Financial Stability Development Council (FSDC) has explicit mandate to focus on financial inclusion and financial literacy simultaneously.

RBI has issued revised guidelines on the Financial literacy Centres (FLC) on June 6, 2012, for setting up FLCs, as detailed in Box 1 above.

3.3.10. Growth in SHG-Bank Linkage

This model helps in bringing more people under sustainable development in a cost effective manner within a short span of time. As on March 2011, there are around 7.46 million saving linked SHGs with aggregate savings of Rs.70.16 billion and 1.19 million credit linked SHGs with credit of Rs. 145.57 billion (Source: NABARD, Status of Microfinance in India).

3.3.11. Growth of MFIs:

Though RBI has adopted the bank-led model for achieving financial inclusion, certain NBFCs which were supplementing financial inclusion efforts at the ground level, specializing in micro credit have been recognized as a separate category of NBFCs as NBFC-MFIs.

At present, around 30 MFIs have been approved by RBI. Their asset size has progressively increased to reach Rs. 19,000 crore as at end Sept 2013.

3.3.12. Bank Credit to MSME[10]

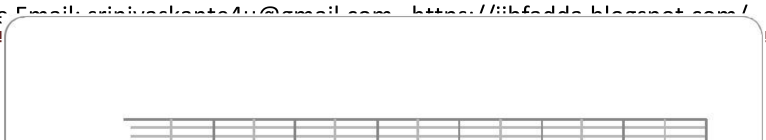
MSME sector which has large employment potential of 59.7 million persons over 26.1 million enterprises, is considered as an engine for economic growth and promoting financial inclusion in rural areas. MSMEs primarily depend on bank credit for their operations.

Bank credit to MSME sector witnessed a CAGR of 31.4% during the period March 2006 to March 2012. Of total credit to MSME, public sector banks contributed the major share of 76%, while private sector banks accounted for 20.2% and foreign banks accounted for only 3.8% as on March 31, 2012[11] (Chart 11).

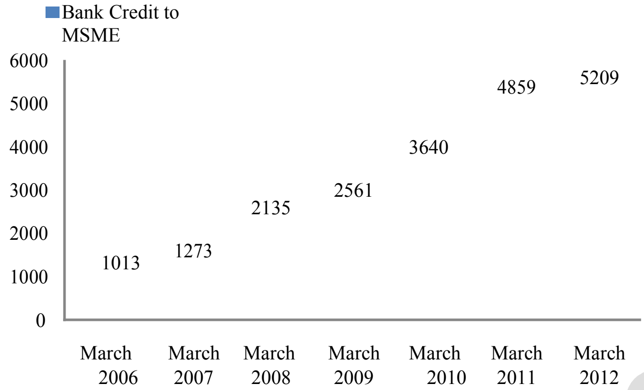
[10]Micro small and medium enterprises have been considered as engine for economic growth and promoting equitable development of the country because of its employment and export potential and economic empowerment of a vast section of the population. MSME sector employs 59.7 million persons spread over 26.1 million enterprises. This sector accounts for around 45 per cent of the manufacturing output and around 40 per cent of total export of the country (based on the 4th census of MSME sector, Ministry of MSME, Government of India)

[11]MSME Annual Report, 2012-13, pg. 267

Chart 11: Bank Credit to MSME



Bank Credit to MSME



Source: MSME Annual Report 2011-12 (pg 267)

3.3.13. Insurance Penetration in the Country

™ The total insurance (life and non-life) penetration, in terms of the ratio of insurance premium as a percentage of GDP increased from 2.32 in 2000-01 to 5.10 in 2010-11. The life insurance penetration as a percentage of GDP stood at 4.40 in 2010-11 while the non-life insurance

penetration remained at 0.71 during the same period[12]. In other words, there is vast untapped potential as regards insurance penetration.

3.3.14. Equity Penetration in the Country

™ The number of investor accounts accounted for a meagre 1.71% of total population of the country[13].

3.3.15. Financial Inclusion Initiatives – Private Corporates:

A few large private corporate have undertaken projects such as E-Choupal/ E-Sagar(ITC), Haryali Kisan Bazaar (DCM), Project Shakti (HUL), etc. Reportedly, these pioneering projects have brought about vast improvement in the lives of the participants and set the tone for economic development in their command areas; which is a pre-requisite for Financial Inclusion efforts to be undertaken by the banking system.

Section - 4

4.1. Stakeholder-wise Issues in Financial Inclusion

™ Taking into account the achievements stated in the previous section and based on our interactions with the stakeholders during our various outreach programmes, as also the feedback received from our meetings with the frontline managers, the more important issues which need to be attended; stakeholder-wise are listed in the table below,

Table 2: Stakeholder-wise Issues

S.No	Issues	Remarks
1)	**Business Correspondents (BC):** For effective functioning of BC model in reaching poor villagers, the following need to be addressed: • BCs are not making enough income due to catering of services to low-income customers with low volume transactions. For optimum usage of BCs in reaching the poor villagers, BCs have to be adequately compensated so that they are sufficiently incentivized to promote financial inclusion as a viable business opportunity. • The usefulness of BC model is dependent on the kind of support provided by the bank branches. For effective supervision of BC operations and for addressing cash management issues as also to take care of customer grievances, banks should open small brick and mortar branches at a reasonable distance. • Further, banks should initiate suitable training and skill development programes for effective functioning of BCs.	Banks
2)	**Tailor Made Services:** • **Innovative Products**: Designing suitable innovative products to cater to the requirements of poor villagers at affordable rates is an absolute imperative. • To wean away villagers from borrowing from money lenders, banks should develop simplified credit disbursement procedures and also flexibility in their work processes.	Banks
3)	**Technology Applications:** • In an ICT enabled environment, technology is the main lever to achieve the eventual goal of financial inclusion at the earliest. • **ATM-Network**: ATM Network in rural areas accounted	Banks/RRBs, Co-op Banks

6

S.No	Issues	Remarks
	for only 10.1% of total ATMs in the country as on March 31, 2013[14]. Banks should enhance their ATM network in rural and un-banked areas to serve poor villagers. While doing so, adequate care should be taken regarding safety/ security issues, which have come to the fore in recent times. • **Rupay Network**: To reduce the overall transaction costs associated with small ticket transactions in rural areas, domestic RuPay cards may be utilized[15]. • **KCC/GCCs:**To enable farmers to withdraw cash from ATMs anywhere in the country, banks need to convert KCCs/GCCs to electronic credit card. Further, banks may explore the possibility of issuing multipurpose cards which could function as debit cards, KCC and GCC as per the requirements in rural areas. • **Mobile Banking:** In rural India, there are 323.27 million[16] mobile subscribers as on March 2012 (TRAI Annual Report, 2012). To examine the options/ alternatives, including the feasibility of using encrypted SMS based funds transfer using an application that can run on any type of handset for expansion of mobile banking in the country, RBI constituted a committee (Chairman: B. Sambamurthy) • **Technology Service Providers (TSPs):** There are a number of issues involving TSPs via-a-vis several banks.	Banks/RRBs, Co-op Banks Banks/RRBs Banks Banks
4)	**BSBD Accounts:** It is understood that nearly half of the BSBD accounts are dormant. For effective use of BSBD accounts economic activity needs to be improved.	Governments – Central and State; Banks, Co-op Banks, RRBs
5)	**Use of PACs and Primary Cooperatives as BCs:** PACs penetration in rural areas is far more than that of bank branches. Banks may make use of this largest rural network of cooperatives as business correspondents. Recent NABARD circular also envisaged that PACs can be utilized as BCs for CCBs/SCBs.	Banks, RRBs, State Governments
6)	**Financial Inclusion in Urban Areas:** Generally, urban financial inclusion leaves vast scope for improvement. Migration from rural to urban centres is also accentuating the problem.	Banks
7)	**Remittance Corridors:** Remittance facility for migrant population is of paramount	Banks

[14] Source: Department of Financial Services, Government of India
[15]There are some 85,000 PoS terminals existing where RuPay cards are already accepted. So far, 25 Commercial Banks, 25 RRBs and 30 Urban Co-op Banks have issued over 2 million Rupay cards.
[16] Number mobile subscribers in rural India increased more than 9 times from just 33.14 million in March 2007 to 323.27 million in March 2012 (Source: TRAI Annual Report 2011-12)

S.No	Issues	Remarks
	importance. Providing of easy and cheap remittance facilities to migrant population is an absolute imperative.	
8)	**Migrants are not Adequately Covered:** Migrants are facing difficulties in opening bank accounts. Commercial banks need to take care of the needs of the migrant population in their financial inclusion plans.	RBI and Banks
9)	**Human Face of Banking**: To deal with poor villagers, banks need to initiate training programmes to frontline staff and managers as well as BCs on the human side of banking.	Banks
10)	**Agriculture Advances:** While the number of farmers accounts with SCBs' increased from just 63 lakh in March 2006 to 176 lakh in March 2010[17];in terms of credit, farmers with land holdings 'above 5 acre' accounted for largest share of 44% of total bank credit. To achieve meaningful financial inclusion, banks should give priority for small farmers as compared to large farmers while sanctioning credit.	Banks
11)	**Scalability of CBS Platform:** In order to handle the growing amount of work due to intensive financial inclusion efforts of country, banks/RRBs should ensure scalability of their CBS platforms.	Banks/RRBs
12)	**Electronic Benefit Transfer (EBT):** The EBT scheme being an important and integral part of the overall Financial Inclusion with its attendant benefits, banks should promote EBT systems effectively for boosting their financial inclusion plans.	Banks
13)	**Ultra Small Branches[18]:** Ultra Small Branches may be set up between the base branch and BCs to provide support to about 8-10 BC units at a reasonable distance	New Private Banks/ RRBs
14)	**Low Credit Share of Rural Areas:** Although, in terms of number of branches, rural areas account for nearly 30% of total branches of scheduled commercial banks, the share of rural credit account for less than 10% of total credit. Govt./Banks should initiate steps to increase the credit absorption capacity in rural areas by promoting employment and other opportunities.	Banks/GoI
15)	**Private Sector banks need to open more branches in rural areas**: In the case of private sector banks, rural	Private Banks

	branches accounted for just 13.3% of their total branches in March 2013 (while in the case of public sector the same stood at 33.1%). There is an imperative need to ramp up the number of rural branches by the private sector banks	
16)	**Penetration of RRBs in Financially excluded Regions:** Though RRBs have more presence in central (30.7% as on	RRBs

[17] Source: Hand Book of Statistics on Indian Economy
[18] RPCD CO.RRB.No.BL.BC/08/03.05.90/13-14

S.No	Issues	Remarks
	March 2012) and eastern regions (23.1%), financial exclusion is more acute in these regions.	
17)	**Infrastructure Development**: For up-scaling financial inclusion, adequate infrastructure such as digital and physical connectivity, uninterrupted power supply etc are prerequisites. Reportedly, out of six lakh villages in India, around 80,000 villages have no electricity and the constraints of electricity directly impact the working of banks.	Central & State Governments
18)	**Vernacular Languages** Financial inclusion efforts should necessarily be done in vernacular languages. In this context, the need for vernacularisation of all forms (including legal forms) is an absolute must, at least in major languages. As per Akosha[19] there are 10,506 consumer complaints received[20] against financial sector (includes banking, finance, insurance, real estate and construction) during the period January 2013 to March 2013. As part of Financial Literacy initiatives, if banks were to undertake pro-active steps in helping the common public to get over their English phobia, it is felt that the number of complaints would increase manifold.	Banks & Other FIs
19)	**Private Corporate Initiatives** A few large private corporates have undertaken projects such as E-Choupal / E- Sagar (ITC), Hariyali Kisan Bazar (DCM), Project Shakti (HUL), etc. Reportedly, these pioneering projects have brought about vast improvement in the lives of the participants and set the tone for economic development in their command areas; which is a pre-requisite for Financial Inclusion efforts to be undertaken by the banking system.	Private Corporates
20)	**Post-offices**: Post offices (POs) are closest to the rural people compared to bank branches. As on March 31, 2011, there are 1,54,866 post offices in India, of which 1,39,040 (89.8%) were in rural areas. All round efforts should be made to ensure that Post	RBI and Government

	Offices play a greater and more active role due to known advantages. Progressively, more POs may be engaged to become BCs of banks due to well-known advantages.	
21)	**White Label ATMs:** RBI has already started allowing eligible private entities to establish White Label ATMs. There is case for its acceleration.	RBI, Private Corporates
22)	**MSME – Financial Exclusion:** The statistics based on 4th Census on MSME sector revealed that only 5.18% of the units (both registered and un-	SIDBI/ Banks

[19] An online company working towards consumer complaints redressal

[20] Related to problem in ATM transactions (18.02% of total complaints) and mis-selling of insurance products (16.30%), credit cards (13.83%), loan(10.88%), saving bank account (11.78%), medical insurance (8.34%), debit card (6.65%), general insurance (4.15%), motor insurance (3.55%) and others (6.5%).

S.No	Issues	Remarks
	registered) had availed finance through institutional sources, 2.05% got finance from non-institutional sources. The majority of units i.e., 92.77% had no finance or depended on self-finance. SIDBI should go into the reasons for not getting access to formal sources of credit by the majority of MSME units.	
23)	**SHG-Bank Linkage - Penetration:** Although SHG-Bank Linkage model is successful in rural areas, it has not spread evenly throughout India, the spread is poor especially in the financially excluded regions namely central and north-eastern.	NABARD
24)	**SHG-Bank Linkage Outstanding Bank Credit:** Outstanding bank loans against SHGs accounted for only 1.93% of gross bank credit as on March 31, 2011. It was observed that SHGs are not getting loans from banks even after more than one year of its formation and group activities. Certain difficulties are being experienced by SHGs in obtaining bank credit which NABARD should look into and inform RBI of the same.	NABARD
25)	**Insurance for Rural India:** Over 70% of total population resides in the rural areas of the country. However, insurance reaches less than 3% of the total population. Due to high competition and relatively high market saturation in the urban areas, rural areas provide ample business opportunities for insurance firms –both life and non-life.	IRDA
26)	**Scope for Further Research:** In financial inclusion, there are a few potentially interesting areas for future research –viz., (a) the most appropriate delivery model (which banks are still trying to figure out) for different geographical regions given	Research Agencies

	their unique characteristics, (b) The unbanked segments- beit in rural, urban or metropolitan areas are largely served by the un-organized sector even today. Research into the products, practices and procedures of this unorganized sectors an absolute imperative, to identify and understand the same which the bottom of the pyramid populace finds so convenient and comfortable to deal with. This could throw up valuable leads for the organized sector – banks and financial institutions to follow (c) Further, in order to measure the intensity of money lenders especially in rural areas, research agencies should, inter alia, conduct a census of money lenders in rural India.	

Section 5

Conclusion & Way Forward

Let me conclude by repeating what I have endeavoured to convey about assessment of Financial Inclusion efforts in our country. I began with a brief introduction of the subject and provided two major definitions of Financial Inclusion. Thereafter, the important policy initiatives of RBI and progress achieved / identified trends in Financial Inclusion have been explained to assess where we stand at the present juncture. I tried to identify stakeholder-wise issues in Financial Inclusion, based on such an assessment as also on the basis of feedback received by us during our financial outreach programmes and the conferences of front line managers which we have been conducting for the past few years. It is one's earnest hope and desire that the issues raised herein would trigger an informed debate and discussion, which could provide an invaluable feedback in the run up to the Report of Nachiket Mor Committee, which at present is examining the entire gamut of issues surrounding Financial Inclusion. Further on, the research community may like to go into such aspects of Financial Inclusion, which would provide valuable leads to the regulators and all the stakeholders concerned in achieving meaningful and holistic Financial Inclusion at the earliest in our country

Introduction

1.1 The National Scheme for Liberation and Rehabilitation of Scavengers (NSLRS) was being implemented by all Public Sector banks since 1993 with an objective to liberate all scavengers and their dependents from their existing hereditary and obnoxious occupation of manually removing night soil and filth and to provide for and engage them in alternative and dignified occupations within a period of five years. Government of India stopped funding the NSLRS since 2005-06 and approved the Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS) with an objective to rehabilitate the remaining scavengers and their dependents by March 2009. As the Government of India, Ministry of Social Justice & Empowerment decided to continue the scheme beyond September 30, 2009, banks were advised to complete implementation of the scheme up to December 31, 2009 and the spillover in inevitable cases up to March 31, 2010 (vide Circular RPCD.SP.BC.No.47/09.03.01/ 2009-10 dated December 18, 2009). The scheme contains provisions for capital subsidy, concessional loans and capacity building for rehabilitation of manual scavengers in alternative occupations.

1.2 The successful implementation of the Scheme would depend upon effective participation and monitoring of the scheme by public sector banks at all controlling levels.

1.3 The Ministry has since advised that as per information provided by the States / Union Territories all eligible and willing beneficiaries were assisted by June 2010. However, Scheme is still functioning to cover residual cases of manual

3scavengers reported by States / UTs. Banks are, therefore, advised to continue financing the projects under SRMS.

Objective of the Scheme

The objective of the scheme is to assist the remaining scavengers for rehabilitation, which are yet to be assisted.

Eligibility

Scavengers and their dependents, irrespective of their income, who are yet to be provided assistance for rehabilitation, under any scheme of Government of India / State Governments will be eligible for assistance.

Definition of Scavenger

A "Scavenger" means one who is partially or wholly engaged in the obnoxious and inhuman occupation of manually removing night soil and filth. The dependent of Scavengers is one who is a member of their family or is dependent on them irrespective of the fact whether they are partially or wholly engaged in the said occupation. Each individual scavenger and his / her children who are of 18 years of age and above, who are not employed (other than as scavengers) will be identified and rehabilitated.

2. Salient Features

2.1 The Self Employment Scheme for rehabilitation of Manual Scavengers is applicable to Public Sector Banks.

2.2 The scheme is being implemented through the apex corporations of the Ministry of Social Justice and Empowerment as per the list enclosed at Appendix I. The eligible beneficiaries will be sponsored by the State Channelising Agencies for availing loans from banks. Self Help Groups (SHGs) may be involved in implementation of the new scheme, within the overall parameters of the scheme.

4Since it is a time bound scheme, norms applicable to SHGs under other schemes will not apply.

2.3 The identified scavengers will be provided training, loan, and subsidy. Banks will provide loans to candidates sponsored by State Channelising agencies only. After sanction of the loan, bank will claim amount of capital subsidy from the State Channelising Agencies who in turn will provide admissible capital subsidy, which will be disbursed to the beneficiary alongwith the loan amount. After disbursement of loan to the beneficiaries, the concerned branch of the bank will claim interest subsidy from the State Channelising Agency on a quarterly basis.

2.4 Credit will be provided by the banks, which will charge interest from the beneficiaries at the rates prescribed under the scheme. National Safai Karmacharis Finance and Development Corporation (NSKFDC) or any other identified agency at the apex level, will provide interest subsidy to the banks through its State Channelising Agencies (SCAs) or any other identified agency at the State level, for the difference between the interest chargeable by bank and the interest to be charged from the beneficiaries under the scheme. However, the procedures indicated for claiming interest and capital subsidy are suggestive in nature. The concerned State Governments and SLBC have the option of evolving any alternative procedure in the interest of smoother implementation of the scheme with mutual consent.

3. Funding

3.1 The Scheme after provides for projects costing upto Rs.5.00 lakhs. The loan amount will be the remaining portion of the project cost, deducting the admissible capital subsidy. No margin money / promoter's contribution is required to be provided under the scheme.

3.2 Both, term loan (upto a maximum cost of Rs.5 lakhs) and micro financing (upto a maximum of Rs.25,000) will be admissible under the Scheme. Micro 5
financing will also be done through self help groups (SHGs) and reputed Non Governmental Organisations (NGOs).
3.3 The rate of interest chargeable from the beneficiaries will be as follows:
(a) For projects upto Rs.25,000/- 4% per annum (for women beneficiaries) 5% per annum
(b)nFor projects above Rs.25,000/- 6% per annum
3.4 Where the rate of interest chargeable by the banks on loans will be higher than the rates prescribed in the scheme, interest subsidy to the extent of the difference will be given to the banks and this will be administered by NSKFDC / other agencies identified by the Ministry.
3.5 In every state annual targets of each bank will be fixed by State Level Bankers Committees (SLBC's) as per state wise scheme targets.
4. Repayment
The period of repayment loan will be three years for projects upto Rs.25,000 and 5 years for projects above Rs.25,000. The moratorium period to start the repayment of loan will be six months. The State Channelising Agencies (SCAs) would distribute the funds within a period of three months to the beneficiaries.
5. Subsidy
5.1 Credit linked capital subsidy will be provided upfront to the beneficiaries in a scaled manner :
6(a)nFor projects costing upto Rs.25,000@ 50% of the project cost
(b)mFor projects costing more than Rs.25,000/-@ 25% of the project cost, with a minimum of Rs.12,500 and maximum of Rs.20,000/-
5.2 Beneficiaries will be allowed to avail second and subsequent loan from banks if required, without capital subsidy and interest subsidy and other grants under the scheme.
6. Implementing Agencies
6.1 National Safai Karmacharis Finance and Development Corporation (NSKFDC) or any other agency identified under the scheme, will undertake all activities under the scheme and will co-ordinate with the concerned agencies to ensure optimum benefits to the beneficiaries. NSKFDC or other identified agency will have freedom to meet admissible expenditure under the scheme out of their own funds, which will be reimbursable to them. NSKFDC or any other identified agency, will have option to provide loan to the target group at the rates prescribed in the scheme, out of their own funds and recover them. Such amounts, however, will not be reimbursable from Government. In such cases, they will be entitled to claim assistance for training, interest subsidy (if required), capital subsidy etc, as provided under the scheme.
6.2 The scheme is proposed to be implemented at the national level through the NSKFDC or other identified agencies for this purpose. At the State level, the implementing agencies will be the state channelising agencies identified for the purpose, which may include government agencies and reputed non-governmental organisations. It is also provided to encourage involvement of reputed micro finance institutions and NGOs for micro financing schemes through the SHGs. For training of the beneficiaries, it is envisaged to involve reputed specialised training institutions, in addition to government institutions.
7
6.3 The existing institutions under the Ministry such as the NSKFDC and its SCAs have the requisite experience to implement the proposed scheme. However, their limited infrastructure capacity would need to be enhanced. They would be expected to implement the scheme, in addition to their existing activities and would, therefore, need to be supported for building their capacity to cope up with the increased work and will need to devise innovative mechanisms to achieve the task assigned. Similarly, there would be a need to support other identified agencies involved at various levels. A facility fund of Rs. 5.00 crore is earmarked to provide financial support to the implementing agencies at various levels.
6.4 The progress of implementation will be monitored by NSKFDC and other apex level agencies, identified for the purpose. The National Commission for Safai Karamcharis may, in accordance with its terms of reference, review the implementation of programmes and schemes, social and economic rehabilitation of the manual scavengers. The scheme will be concurrently evaluated by an independent agency for which 1% of the total cost of the scheme (i.e. 7.35 crore) is earmarked under Monitoring and Concurrent Evaluation.
7. Role of Banks
7.1 The approach towards the scheme should be employment / income oriented instead of target oriented. The successful implementation of the scheme depends on effective participation and monitoring by banks at all levels. Banks should therefore pay particular attention to this aspect and ensure that sufficient number of branches effectively participate in the implementation of the scheme in close association with the State Local Scheduled Caste Development & Finance Corporations. Banks should allocate targets for financing of beneficiaries by

proportionately distributing the total target under the scheme for the districts under annual Credit Plan (ACP), among all bank branches covered for District Credit Plan (DCP) as per the availability of eligible beneficiaries within the area of operation of the branches. Bank may issue suitable instructions to their branches / controlling offices for implementation of the scheme.

8

7.2 The banks should ensure that their branches extend all co-operation to the applicant beneficiaries and not ask for documents, guarantees etc. not envisaged in the scheme.

7.3 The banks should not insist for deposit amount in the fixed deposit from the beneficiary.

7.4 The banks should adopt simple and transparent procedure to eliminate middlemen operating between the beneficiaries and the banks and expedite disposal of applications timely.

7.5 All loan applications up to a credit limit of Rs.25,000/- should be disposed of within a fortnight and those for over Rs.25,000/- within 8 to 9 weeks.

7.6 Proper record of receipt and disposal of applications as required should be maintained.

7.7 Branch Managers may reject applications (except in respect of SC / ST) provided the cases of rejections are verified subsequently by the Divisional / Regional Manager. Applications should not be rejected on flimsy grounds. In case of rejection of application reasons for rejection of application should invariably be recorded.

7.8 All loan applications pending beyond prescribed time limit should be disposed of on priority basis.

7.9 The performance of banks under the scheme may be periodically reviewed at different for a under the Lead Bank Scheme, at SLBC meetings etc.

7.10 To encourage lending to the beneficiaries efforts should be made to educate and reorient the attitude of the banks' staff for an attitudinal shift.

7.11 To meet the target banks should improve their pre-sanction scrutiny and tighten post disbursement follow up.

9

7.12 In the course of implementation of the scheme, there would be a need to take timely decisions on several important aspects. To facilitate implementation and timely decisions on critical issues, a special mechanism is envisaged. A committee under the chairmanship of Secretary, Ministry of Social Justice and Empowerment shall be constituted with the following composition :

* Additional Secretary, Ministry of Social Justice and Empowerment
Member
* Joint Secretary and Financial Advisor, Ministry of Social Justice and Empowerment - Member
* Advisor concerned in the Planning Commission - Member
* Joint Secretary (Scheduled Caste Development) - Convener

The committee can call special invitees, if felt necessary, to attend its meeting. The recommendations of the committee would be within the broad parameters of the scheme and would be implemented with the approval of Minister, Social Justice and Empowerment.

8. Types of Projects

8.1 The beneficiaries are free to select any viable income generating self employment project. Given below is the indicative list of projects, which are usually selected by the beneficiaries which are sustainable and have a good potential of regular income.

Member
* Joint Secretary and Financial Advisor, Ministry of Social Justice and Empowerment - Member
* Advisor concerned in the Planning Commission - Member
* Joint Secretary (Scheduled Caste Development) - Convener

The committee can call special invitees, if felt necessary, to attend its meeting. The recommendations of the committee would be within the broad parameters of the scheme and would be implemented with the approval of Minister, Social Justice and Empowerment.

8. Types of Projects

8.1 The beneficiaries are free to select any viable income generating self employment project. Given below is the indicative list of projects, which are usually selected by the beneficiaries which are sustainable and have a good potential of regular income.

9.2 A comprehensive programme of publicity with a view to awareness generation at all levels will be undertaken so as to ensure that optimum benefit reaches to the beneficiaries in the shortest possible time.

10. Monitoring and Evaluation

In order to bridge the gap between liberation and rehabilitation of manual scavengers, the scheme will be linked with the programme of conversion of dry latrines in co-ordination with the Ministry of Housing and Urban Poverty Alleviation (MoH&UPA) and municipal bodies at State / local levels. As various Ministries of Government of India and State Governments are implementing different developmental programmes, efforts will be made to converge the benefits with other existing programmes so as to give a meaningful package to the target group. The existing mechanism of Central Monitoring Committee (CMC) to monitor the implementation of the National Action Plan for Total Eradication of Manual Scavenging by 2007, under the chairpersonship of Secretary (MSJ&E) with inter-ministerial representation will be utilised for this purpose.

10.1 The implementing agencies at the National, State, district and town levels monitor and evaluate the implementation of the scheme and take corrective action so that the programme is implemented according to targets fixed.

10.2 The implementing branch shall submit a monthly statement as per Annexure II to the Lead Bank Officer (in the case of branches of the lead bank) or to the District Co-ordinator (in the case of branches of other banks) as also to their respective controlling offices. The concerned Lead Bank Officer / District Co-ordinator should consolidate the data in the same format in respect of all the branches of his bank in the district so that the performance data of each bank in each district under the scheme is available. The District Co-ordinators should also send the consolidated data in respect of their branches in the district to the Lead Bank Officer so that bank-wise data can be placed before the District Consultative Committee, for review at its Meetings.

12

10.3 The controlling offices of banks should consolidate the data in respect of all the branches under their jurisdiction and furnish the same to the Regional / Zonal Offices at the State-level. The Regional / Zonal Offices of the banks at the State-level should review the progress in implementation of the scheme by their branches for the State as a whole. The State / Union Territory level data should be made available by the Regional / Zonal offices of each bank to the convener of the State Level Bankers' Committee for review at the SLBC meetings. One copy of this statement will also be furnished to the concerned Regional Office of RPCD of Reserve Bank of India.

10.4 The Regional / Zonal Offices of banks should make available the State / Union Territory-wise data to the Head Offices of the banks for review. Head Offices of the banks should review the performance of the banks under the scheme on the basis of such statements. The Head Offices of banks shall send to Rural Planning and Credit Department, Reserve Bank of India, Central Office, Mumbai their performance data giving State / Union Territory-wise details by the end of the next month to which the data is related.

10.5 The format given in Annexure II will be used for reporting of data by the Controlling / Regional / Zonal / Head Offices of banks as well as the SLBC conveners.

10.6. Any further clarification / instruction regarding the smooth implementation of the scheme as received from the Ministry of Social Justice and Empowerment will be issued subsequently.

National Urban Livelihoods Mission (NULM)

The Government of India, Ministry of Housing and Urban Poverty Alleviation (MoHUPA), restructured the existing Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and launched the National Urban Livelihoods Mission (NULM) in 2013. NULM has been under implementation w.e.f. September 24, 2013 in all district headquarters (irrespective of population) and all the cities with population of 1 lakh or more while SJSRY was allowed to continue to be operational till March 31, 2014.

The Self Employment Program (SEP) is one of the components (Component 4) of NULM which will focus on providing financial assistance through a provision of interest subsidy on loans to support establishment of individual & Group Enterprises and self-Help Groups (SHGs) of urban poor. The erstwhile provision of capital subsidy for USEP (Urban Self Employment Program) and UWSP (Urban Women Self-Help Program) components of SJSRY has been replaced by interest subsidy for loans to Individual enterprise (SEP- I), Group enterprise (SEP- G) and Self Help Groups (SHGs).

SEP - OPERATIONAL GUIDELINES

The operational guidelines of the Self Employment Program (SEP) component of NULM are as under :

1. Introduction:

1.1. This component focuses on financial assistance to individuals/groups of urban poor for setting up gainful self-employment ventures/ micro-enterprises, suited to their skills, training, aptitude and local conditions. The component will also support Self Help Groups (SHGs) of urban poor to access easy credit from bank and avail interest subsidy on SHG loans. The component will further focus on technology, marketing and other support services to the individuals, group entrepreneurs, SHG members and Urban street vendors/ hawkers engaged in micro enterprises for their livelihoods. The component will also facilitate issuance of credit cards for working capital requirement of the entrepreneurs.

3 1.2. The underemployed and unemployed urban poor will be encouraged to set up small enterprises relating to manufacturing, servicing and petty business for which there is considerable local demand. Local skills and local crafts should be particularly encouraged. Each Urban Local Body (ULB) should develop a compendium of such activities/projects keeping in view skills available, marketability of products, costs, economic viability etc.

1.3. The percentage of women beneficiaries under SEP shall not be less than 30 percent. SCs and STs must be benefited at least to the extent of the proportion of their strength in the city/town population of poor. A special provision of 3 percent reservation should be made for the differently-abled under this program. In view of the Prime Minister's 15-Point Program for the Welfare of Minorities, at least 15 percent of the physical and financial targets under this component shall be earmarked for the minority communities.

2**. Selection of Beneficiary**: The Community Organizers (COs) and professionals from Urban Local Body (ULB) will identify the prospective beneficiaries from among the urban poor. The community structures formed under Social Mobilization & Institutional Development (SM&ID) component of NULM viz. Self Help Groups (SHGs) and Area Level Federations (ALFs) may also refer prospective individual and group entrepreneurs for purpose of financial assistance under SEP to ULB. The beneficiaries may directly approach ULB or its representatives for assistance. Banks may also identify prospective beneficiaries at their end and send such cases directly to ULB.

3. **Educational Qualifications and Training Requirement:** No minimum educational qualification is required for prospective beneficiaries under this component. However where the identified activity for micro-enterprise development requires some special skills appropriate training must be provided to the beneficiaries before extending financial support by linking for training under Component 3: Employment through Skills Training and Placement (EST&P). Financial assistance should be extended only after the prospective beneficiary has acquired required skills for running the proposed micro-enterprise.

4

3.1. Such training may not be necessary if the beneficiary has already undergone training from a known institution, registered NGO/Voluntary Organization or trained under any government scheme provided requisite certificate is produced. In case the beneficiary has acquired requisite skills from family occupation such cases should be certified by the ULB before extending financial assistance.

3.2 Entrepreneurship Development Program (EDP): In addition to skill training of the beneficiaries, the ULB will also arrange to conduct Entrepreneurship Development Program for 3-7 days for individual and group entrepreneurs. The EDP will cover basics of entrepreneurship development such as management of an enterprise, basic accounting, financial management, marketing, backward and forward linkages, legal procedures, costing and revenue etc. In addition to above topics the module should also include group dynamics, allocation of work, profit sharing mechanism etc. for group enterprises.

3.3 The EDP module may be developed and finalized by State Urban Livelihoods Mission (SULM) supported by State Mission Management Unit (SMMU) with assistance of an empaneled institution/agency or consulting firm and same may be utilized for conducting training program by the ULB. This EDP training may be arranged through institutions such as Rural Self Employment Training Institutes (RSETI), reputed institutions engaged in entrepreneurship development/ training, management/ educational institutes, reputed NGOs engaged in entrepreneurship development/ training etc.

3.4 Any cost incurred on training of beneficiaries under this component is to be met out of EST&P component budget.

4. Pattern of Financial Assistance: The financial assistance available to urban poor in setting up individual and group enterprises will be in the form of Interest subsidy on the bank loans. Interest subsidy, over and above 7% rate of interest will be available on a bank loan for setting up of individual or group enterprises. The difference between 7%

p.a. and the prevailing rate of interest will be provided to banks under NULM. Suitable certification from banks will be obtained in this regard.
5
5. Procedure for interest subsidy:
5.1. All scheduled commercial banks (SCBs), Regional Rural Banks (RRBs) and cooperative banks, which are on the Core Banking Solution (CBS) platform would be eligible for getting interest subvention under the scheme.
5.2. After disbursement of loan to the beneficiaries, the concerned branch of the bank will send details of disbursed loan cases to ULB along with details of interest subsidy amount.
5.3. The settlement of claims made by banks would be done on quarterly basis by the ULBs, however the submission of claims should be monthly. The ULB will check the data at their end and will release the interest subsidy amount (difference between 7% p.a. and prevailing rate of interest) to the banks.
5.4 A prescribed format for interest subsidy claims for loans under this component is enclosed (Annex I).
5.5 The State Level Bankers Committees (SLBCs) have the option of evolving any alternative procedure of aggregating/ sanction of claims in consultation with the state government.
5.6 The pending claims should not be more than a quarter. In case the claims of the banks are not settled for a period of 6 months, SLBC is empowered to stop the scheme temporarily in selected cities subject to clearance of claims by such ULBs. In such eventualities, the claims settlement should prospectively be given to the Lead District Bank.
6 Sub-Component - Individual Enterprises (SEP-I)-Loan & Subsidy
6.1 An urban poor individual beneficiary desirous of setting up an individual micro-enterprise for self-employment can avail benefit of subsidized loan under this component from any bank. The norms/ specifications for individual micro-enterprise loans are as follows:
6.2 Age: The prospective beneficiary should have attained the age of 18 Years at the time of applying for loan.
6.3 Project Cost (PC): The Maximum unit Project Cost for individual micro-enterprises cases is Rs 200,000 (Rs Two Lakhs).
6.4 Collateral on Bank Loan: No collateral required. As per RBI Circular RPCD.SME & NFS.BC.No.79/06.02.31/2009-10 dated May 6, 2010 banks are mandated not to accept collateral security in the case of loans up to Rs10 lakhs
6
extended to units in the MSE sector. Therefore, only the assets created would be hypothecated/ mortgaged/ pledged to banks for advancing loans. The banks may approach Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) setup by Small Industries Development Bank (SIDBI) and Government of India for the purpose of availing guarantee cover for SEP loans as per the eligibility of the activity for guarantee cover.
6.5 Repayment: Repayment schedule ranges from 5 to 7 Years after initial moratorium of 6-18 months as per norms of the banks.
7. Sub-Component - Group Enterprises (SEP-G) -Loan & Subsidy
A Self Help Group (SHG) or members of an SHG constituted under NULM or a group of urban poor desirous of setting up a group enterprise for self-employment can avail benefit of subsidized loans under this component from any bank. The norms/ specifications for group micro-enterprise loans are as follows:
7.1 Eligibility: The group enterprise should have minimum 5 members with a minimum of 70% members from urban poor families. The application/ intent to set up a group enterprise by beneficiaries/ group members should preferably be referred by the community structures viz: SHG/ ALF formed under NULM.
7.2 Age: All members of the group enterprise should have attained an age of 18 years at the time of applying for bank loan.
7.3 Project Cost (PC): The Maximum unit Project Cost for a group enterprise is Rs 10,00,000 (Rs Ten Lakhs)
7.4 Loan: Project Cost less the beneficiary contribution (as specified by bank) would be made available as loan amount to the group enterprise by the bank.
7.5 Collateral Guarantee on Bank Loan: No collateral/ guarantee required. Only the assets created would be hypothecated/ mortgaged/ pledged to banks for advancing loans. The banks may approach Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) as detailed in Para-6.4.
7.6 Repayment: Repayment schedule ranges from 5 to 7 Years after initial moratorium of 6- 18 months as decided by banks.
7
8 Procedure for Sponsoring of Applications:
8.1 The application for individual and group enterprise loans will be sponsored by the Urban Local Body (ULB) which will be the sponsoring agency for the individual and group enterprise.

8.2 The ULB will create awareness regarding SEP to the prospective beneficiaries through mass media campaigns, IEC activities, advertisements in local newspapers, City Livelihoods Centres (CLCs) etc. The ULB may also disseminate information regarding this component through active involvement of Resource Organizations and its field staff.

8.3 The beneficiaries desirous of seeking financial assistance for setting up an enterprise can submit an application of intent to the concerned ULB officials on a plain paper with basic details viz: Name, Age, Contact details, Address, Aadhaar details (if any), amount of loan required, bank account number (if available), type of enterprise/ activity, category etc. The intent could also be sent by mail /post to the ULB office. The ULB shall accept such intents throughout the year.

8.4 The community structures formed under Social Mobilization & Institutional Development (SM&ID) component of NULM viz: Self Help Groups (SHGs)/ Area Level Federations (ALFs) may also refer prospective individual and group entrepreneurs for purpose of financial assistance under SEP to ULB.

8.5 On submission/receipt of the intent from the beneficiary the respective ULB will enter the details in a register/or MIS if available and hence will generate a waiting list of beneficiaries. The ULB will issue an acknowledgement to the beneficiary with a unique registration number, which may be used as a reference number for tracking the status of application.

8.6 Banks may also identify beneficiaries as per the eligibility criterion and receive the intent letter. The applications received directly by the banks will be referred to the ULB. The applications in this case will also form a part of the waiting list.

8.7 ULB will call the beneficiaries in order of the waiting list to complete requisite documentation including filling of Loan Application Form (LAF), activity details, identity proof, address proof, bank account details etc. The SULM may develop a Loan Application Form (LAF) in suitable format in consultation with State Level Bankers Committee (SLBC) convener bank. The same LAF may be utilized across the State.

8

8.8 The applications completed in all respect will be sent to the TASK force constituted at ULB level for scrutiny, which will call the prospective beneficiaries for an interview before recommending or rejecting the application or call for additional information from the applicant if required.

8.9 The case duly recommended by the task force will be forwarded by the ULB to the concerned banks for further processing. Such cases recommended by task force have to be processed by concerned banks within a time frame of 15 days. As these cases are already recommended by the task force, such cases should be rejected by banks only in exceptional circumstances.

8.10 The banks will send a periodic report to the ULB on the status of the applications received. In case of MIS being used, the banks may be allowed to update the status of application online in addition to manual report.

9 Task Force at ULB Level

9.1 A Task Force may be constituted at ULB level for recommending cases for individual and group enterprises for onward transmission to the banks by the ULB. The Chief Executive Officer (CEO)/ Municipal Commissioner of ULB will be responsible to constitute the Task Force and will be the Chairman of the Task force. There could be more than 1 task force at ULB level depending upon the size/population of the ULB. The indicative composition of the Task Force is as follows : Sr. No TASK Force at ULB level Role 1. Chief Executive Officer (CEO) ULB/ Municipal Commissioner of ULB/ or any representative authorized by CEO ULB Chairman 2. Lead District Manager (LDM) Member 3. City Project Officer (CPO), ULB/ or any authorized representative of ULB Member Convener 4. Representative from District Industries Centre (DIC) Member 5. Senior Branch Managers (Max-2) of banks Member 6. Representatives(2) of Area Level Federation / City Level Federation Member

9

9.2 The ULB will forward the applications to the task force, which will be scrutinized based on experience, skills, viability of activity, scope of the activity etc. Thereafter the Task Force will shortlist the applications and call for interview of the applicants.

9.3 The task force will then recommend the applications if found suitable, reject if found unsuitable or ask the beneficiary to submit further requisite information for re-examination on case to case basis.

10 Linkage with Credit Guarantee Scheme(CGS) of Ministry of Micro Small & Medium Enterprises (MSME)

The banks may approach Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) setup by Small Industries Development Bank (SIDBI) and Government of India for the purpose of availing guarantee cover for SEP loans as per the eligibility of the activity for guarantee cover.

11. Progress Reporting for SEP-I & SEP-G

11.1 The ULB will prepare a data sheet of the applications recommended by the TASK force along with their status details of the sanction, disbursement and rejection (along with reasons) after validating the same with the respective banks. This data sheet will be sent to SULM on a monthly basis.
11.2 The SULM will compile all the reports received from respective ULBs and will communicate to M/o HUPA on a monthly basis.
11.3 SULM must ensure that progress under SEP is reviewed in every SLBC and District Consultative Committee (DCC) meetings. Any other important issue with regard to SEP may be taken up by SULM with SLBC convener bank for effective coordination and implementation.
12 Sub-Component - Interest Subsidy on SHG Loans (SHG-Bank Linkage)
12.1 Linking of SHGs with banks have been emphasized in the Monetary policy of Reserve Bank of India and Union Budget announcements from time to time and various guidelines in this regard have been issued by the Reserve Bank of India(RBI) to banks. To scale up the SHGs linkage program and make it sustainable, banks have been advised to consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level.
12.2 Master Circular on SHG-Bank Linkage Program issued by Reserve Bank of India consists of the instructions to the banks for SHG bank Linkage. It includes
10Opening of Savings Bank Account of Self Help Groups (whether registered or unregistered), which are engaged in promoting habit of savings among their members as a starting point. Thereafter, the SHGs may be sanctioned Savings Linked Loans (varying from a saving to loan ratio of 1:1 to 1:4) after due assessment or grading by banks. However, in case of matured SHGs, loans may be given beyond the limit of four times the savings as per the discretion of the bank. The Banks have also been instructed that the advances to SHGs irrespective of the purposes for which the members of SHGs should be included by the banks as part of their lending to the weaker sections.
12.3 Under Social Mobilization & Institution Development (SM&ID) component of NULM, the ULB will do necessary groundwork to open bank accounts for SHGs and facilitating access to Revolving Fund (RF). The ULB may also engage Resource Organization (RO) for the purpose or may directly facilitate SHGs through its staff.(Concept & Formation of SHGs, ROs and Revolving Fund has been detailed out in Social Mobilization & Institutional Development (SM&ID) component of NULM).
12.4 With a view to provide access to credit at affordable rate of interest to the urban poor, NULM will provide interest subsidy for SHGs accessing bank loan. The interest subsidy will be the difference between the prevailing rate of interest charged by the bank and 7% per annum, on all loans to SHGs of urban poor. This difference in interest amount on SHG loan (between the prevailing rate of interest and 7% per annum) will be reimbursed to banks.
12.5 An additional 3 percent interest subvention will be provided to all Women SHGs (WSHGs), who repay their loan in time. The Interest subsidy will be subject to timely repayment of the loan (as per the loan repayment schedule) and suitable certification obtained from banks by the ULB. The additional 3% interest subvention amount will be reimbursed to the eligible WSHGs. The banks should credit the amount of 3% interest subvention to the eligible WHSGs accounts and thereafter seek the reimbursement.
12.6 The ULB through its field staff or Resource Organization (ROs) will facilitate filling of loan applications for eligible SHGs to access credit from the banks. The ULB will be responsible to forward the Loan application of the SHGs to the concerned banks with requisite documentation. The ULB will maintain area wise, bank-wise, ROs/ Staff wise data of SHGs loan applications forwarded to the banks. The same will be sent to SULM on a monthly basis.
11
12.7 The banks will send the details of disbursed loan cases to the ULB along with the calculation details of the interest subsidy amount. The ULB will check the data at their end and will release the interest subsidy amount on quarterly basis to the banks following a similar procedure as mentioned in Para 5. The prescribed format for claiming the additional interest subvention is enclosed at (Annex II).
12.8 In order to ensure effective SHG-Bank Linkage under NULM, the SULM will monitor and review the progress with banks on regular basis and co-ordinate with SLBC for interest subsidy/ subvention on SHG Loans in the state. Active involvement of State level Bankers Committee (SLBC) and lead banks may be ensured for sensitization of bank and branch staff for financial inclusion of urban poor.
12.9 It may be noted that the identification, selection, formation and monitoring of SHGs who are to get interest subvention would be the responsibility of State/ ULBs and banks would not be liable for wrong identification of SHGs who get interest subvention.
12.10 The criteria for prompt repayment is as follows
12.10.1 For Cash Credit Limit to SHGs:

i. Outstanding balance shall not have remained in excess of the sanctioned limit/ drawing power continuously for more than 30 days.
ii. There should be regular credits and debits in the account. In any case there shall be at least one customer induced credit during the month.
iii. Customer induced Credits during a month shall be sufficient to cover the interest debited during the month.
12.10.2 For Term Loan to SHGs: A term loan account where all of the interest payments and/or instalments of principal were paid within 30 days of the due date during the entire tenure of the loans would be considered as an account having prompt payment.
13 Credit Card for enterprise development
13.1 The financial assistance to the individual entrepreneurs though subsidized loan for setting up of enterprises under NULM could be viewed as initial impetus to facilitate livelihood support to the urban poor. However the individual entrepreneurs require further financial support in terms of working capital to make the enterprise economically sustainable. This may include immediate and short term monthly requirement of cash for meeting expenses for purchase of goods, raw materials and
12
other miscellaneous expenditures etc. The micro-entrepreneur does not have a regular fixed monthly cash inflow/income to meet expenses arising out of entrepreneurial activities. To approach a financial institution for such immediate credit requirement, it requires procedural documentation and consumes a lot of time. This need for working capital credit is generally met from informal sources of credit (including money lenders) which is typically available at high rate of interest.
13.2 In order to support the micro-entrepreneurs to meet their working capital and miscellaneous credit needs, NULM will facilitate access to Credit Cards through banks.
13.3 The SULM in consultation with the State Level Bankers Committee (SLBC) will finalize the norms, limits and specifications for issuance of credit card to the individual entrepreneurs. The General Credit Card Scheme (GCC), which is being implemented by all scheduled commercial banks or any other variant of credit cards for enterprise development of banks in urban areas, may be explored by SULM and SLBC. The Circular on revised GCC scheme has been issued by RBI notification vide RPCD.MSME & NFS.BC.No.61/06.02.31/2013-14 dated December 02, 2013 available on RBI web-site 'www.rbi.org.in'.
13.4 The ULB will identify the prospective beneficiaries and will facilitate linkages with banks for issuance of credit cards. The focus is to initially facilitate issuance of credit card to cover all the beneficiaries who have availed financial assistance under SEP. Additionally, other beneficiaries who are running their own business but have not availed assistance under SEP may also be covered if they satisfy the norms of issuance of credit cards.
13.5 The targets for the same may be decided at ULB level and the progress under this component is aggregated at SULM level and communicated to M/o HUPA periodically.
14 Technology, Marketing and Other Support
14.1 Micro entrepreneurs often need support in order to grow and sustain their businesses. Support needed may be for establishment, technology, marketing, and other services. Micro entrepreneurs who run very small businesses may need to gain a better understanding of what the market needs, demand of the products produced by them, prices, where to sell, etc. Support services under this component are
13
envisaged with a view to provide an encouraging environment for development of micro enterprises.
14.2 The City Livelihoods Centers (CLCs) established under NULM will offer services to the micro-enterprises such as in establishment (licenses, certificates registration, legal services etc.), production, procurement, technology, processing, marketing, sales, packaging, accounting etc. for long term sustainability. CLC will also provide support in taking up feasibility/ assessment studies on market demand and market strategy for products and services of micro-enterprises.
14.3 All SEP individual and groups enterprises can avail the services from CLCs as per the norms of CLCs. The CLCs with support of ULB may also tie up with various other government schemes which offer services and benefits for micro-enterprise development.
14.4 The SULM may arrange for additional funds/professional assistance for the purpose of providing above services to CLCs.
15 Funding Pattern
15.1 Funding under this component will be shared between the Centre and the States in the ratio of 75:25. In case of special category States (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Jammu & Kashmir, Himachal Pradesh and Uttarakhand) this ratio will be 90:10 between the Centre and States.

15.2 The Ministry will allocate funds to the states on annual basis based on the targets assigned to the states. The states in consultation with the respective SLBCs and ULBs will decide the targets and corresponding funds will be allocated to ULBs so that full reimbursement to the banks on account of Interest subvention is settled during the financial year and no subvention amount remain overdue or pending with the States. Interest subvention as applicable from time to time will be advised by Govt. of India/RBI to the banks on yearly basis.
16 Monitoring and Evaluation
16.1 The SMMU at the State level and CMMU at the ULB level will closely monitor progress of activities / targets under this component, undertake reporting and evaluation. The SULM and the ULB/executing agencies shall report timely progress in formats prescribed by the Mission Directorate from time-to-time, indicating the
14
cumulative achievement monthly and up to the end of the quarter and key issues in implementation.
16.2 To monitor progress of the targets vis-a-vis achievement under NULM, Banks are advised to furnish cumulative progress reports on quarterly basis as per enclosed proforma (Annex III & IV) to the Joint Secretary (UPA), Government of India, Ministry of Housing & Urban Poverty Alleviation, Nirman Bhavan, New Delhi-110001, latest by the end of next month of the quarter to which they relate. Banks are also advised to send a copy of the above quarterly progress report to Reserve Bank of India on email.
16.3 In addition, under NULM, a comprehensive and robust IT-enabled NULM MIS will be established for tracking targets and achievements. States and ULBs will be required to submit their progress reports online and may also use this tool to monitor progress on the ground. In the spirit of proactive disclosure of information and ensuring transparency under NULM, key progress reports under SEP will also be made available in the public domain in a timely manner

NBFC & MFI IN INDIA

A Non Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares, stock, bonds, hire-purchase insurance business or chit-fund business but does not include any institution whose principal business includes agriculture, industrial activity or the sale, purchase or construction of immovable property.

The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of the [[Reserve Bank of India Act, 1934]] (Chapter III-B) and the directions issued by it. On November 9, 2017, Reserve Bank of India (RBI) issued a notification outlining norms for outsourcing of functions/services by Non-Bank Financial Institution (NBFCs) As per the new norms, NBFCs cannot outsource core management functions like internal audit, management of investment portfolio, strategic and compliance functions for know your customer (KYC) norms and sanction of loans. Staff of service providers should have access to customer information only up to an extent which is required to perform the outsourced function. Boards of NBFCs should approve a code of conduct for direct sales and recovery agents. For debt collection, NBFCs and their outsourced agents should not resort to intimidation or harassment of any kind. All NBFCs' have been directed to set up a grievance redressal machinery, which will also deal with the issues relating to services provided by the outsourced agency.

The Reserve Bank of India Act, 1934 amended on 1 December 1964 by Reserve Bank Amendment Act, 1963. In this new 'Chapter III-B' introduced to Regulate 'Deposit Accepting' NBFCs.

Different types of Committees to Review existing framework of NBFCs

James S. Raj Committee[4]
In early 1970s Government of India asked Banking Commission to Study the Functioning of Chit Funds and Examining activities of Non-Banking Financial Intermediaries. In 1972, Banking Commission recommended Uniform Chit Fund Legislation to whole country.

Reserve Bank of India prepared Model Bill to regulate the conduct of chit funds and referred to study group under the Chairmanship of James S. Raj.

In June 1974, study group recommended ban on Prize Chit and other Schemes. Directed the Parliament to enact a bill which ensures uniformity in the provisions applicable to chit funds throughout the country.

Parliament enacted two acts. Prize Chits and Money Circulation Schemes (Banning) Act, 1978 and Chit Funds Act, 1982

Chakravarty Committee[5]
During Planning Era, Reserve Bank of India tried best to 'Manage Money' and evolve 'Sound Monetary' system but no much appreciable success in realising social objectives of monetary policy of the country.

In December 1982, Dr Manmohan Singh, Governor of RBI appointed committee under the Chairmanship of 'Prof. Sukhamoy Chakravarty' to review functioning of monetary system in India.

Committee recommended assessment of links among the Banking Sector, the Non-Banking Financial Institutions and the Un-organised sector to evaluate various instruments of Monetary and Credit policy in terms of their impact on the Credit System and the Economy.

Types of NBFCs in India
Different types of NBFCs are as follows:

Asset Finance Company (AFC)
An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic, such as automobiles, tractors, lathe machines, cranes, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.[6]

Investment Company (IC)
IC means any company which is a financial institution carrying on as its principal business the acquisition of securities

Loan Company (LC)
LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

Infrastructure Finance Company (IFC)

Infrastructure finance companies deploys a minimum of three-fourths of their total assets in infrastructure loans. The net owned funds are more than 300 crores and a minimum crediting rating of 'A' and the Capital to Risk-Weighted Assets Ratio is 15%.

Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC)

IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through Multiple-Currency bonds of minimum 5-year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

NBFC-Factors

NBFC Factors has principle business of factoring. Factoring is a financial transaction and a type of debtor finance

Gold Loan NBFCs in India

Over the years, gold loan NBFCs witnessed an upsurge in Indian financial market, owing mainly to the recent period of appreciation in gold price and consequent increase in the demand for gold loan by all sections of society, especially the poor and middle class to make ends meet. Though there are many NBFCs offering gold loans in India, about 95 per cent of the gold loan business is handled by three Kerala based companies, viz., Muthoot Finance, Manapuram Finance and Muthoot Fincorp. Growth of gold loan NBFCs eventuating from various factors including Asset Under Management (AUM), number of branches, and also the number of customers etc. Growth of gold loan NBFCs occurred both in terms of the size of their balance sheet and their physical presence that compelled to increase their dependence on public funds including bank finance and non-convertible debentures. Aggressive structuring of gold loans resulting from the uncomplicated, undemanding and fast process of documentation along with the higher Loan to Value (LTV) ratio include some of the major factors that augment the growth of Gold loan NBFCs.[7]

Residuary Non-Banking Companies (RNBCs)

Residuary Non-Banking Company is a class of NBFC which is a company and has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner and not being Investment, Asset Financing, Loan Company. These companies are required to maintain investments as per directions of RBI, in addition to liquid assets.

Difference between NBFCs & Banks

NBFCs perform functions similar to that of banks but there are a few differences-

Provides Banking services to People without holding a Bank license,
An NBFC cannot accept Demand Deposits,
An NBFC is not a part of the payment and settlement system and as such,
An NBFC cannot issue Cheques drawn on itself, and
Deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors, unlike banks,
An NBFC is not required to maintain Reserve Ratios (CRR, SLR etc.)
An NBFC cannot indulge Primarily in Agricultural, Industrial Activity, Sale-Purchase, Construction of Immovable Property
Foreign Investment allowed up to 100%.
MFI
Micro Finance Institutions, also known as MFIs,[8] a microfinance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services. A great scale of organizations are regarded as microfinance institutes. They are those that offer credits and other financial services to the representatives of poor strata of population (except for extremely poor strata).[9][10]

MFIs go for NBFC licences
An Increasing number of microfinance institutions (MFIs) are seeking non-banking finance company (NBFC) status from RBI to get wide access to funding, including bank finance.[11]

Exemptions granted to NBFCs engaged in microfinance activities
The Task Force on Supportive Policy and Regulatory Framework for Microfinance set up by NABARD in 1999 provided various recommendations. Accordingly, it was decided to exempt NBFCs which are engaged in micro financing activities, licensed under Section 8 of the Companies Act, 2013, and which do not accept public deposits, from the purview of Sections 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-IC (transfer of profits to the Reserve Fund) of the RBI Act, 1934.[12] 010

MFIs & SHG-Bank linkage programme

In a joint fact-finding study on microfinance conducted by the Reserve Bank of India and a few major banks, the following observations were made:

Some of the microfinance institutions (MFIs) financed by banks or acting as their intermediaries or partners appear to be focusing on relatively better banked areas, including areas covered by the SHG-Bank linkage programme. Competing MFIs were operating in the same area, and trying to reach out to the same set of poor, resulting in multiple lending and overburdening of rural households.
Many MFIs supported by banks were not engaging themselves in capacity building and empowerment of the groups to the desired extent. The MFIs were disbursing loans to the newly formed groups within 10–15 days of their formation, in contrast to the practice

obtaining in the SHG – Bank linkage programme, which takes about six to seven months for group formation and nurturing. As a result, cohesiveness and a sense of purpose were not being built up in the groups formed by these MFIs.

Banks, as principal financiers of MFIs, do not appear to be engaging them with regard to their systems, practices and lending policies with a view to ensuring better transparency and adherence to best practices. many cases, no review of MFI operations were undertaken after sanctioning the credit facility.[13]
MFIs of India
Forbes magazine named seven microfinance institutes in India in the list of the world's top 50 microfinance institutions.

Bandhan, as well as two other Indian MFIs—Microcredit Foundation of India (ranked 13th) and Saadhana Microfin Society (15th) – have been placed above Bangladesh-based Grameen Bank (which along with its founder Mohammed Yunus, was awarded the Nobel Prize). Besides Bandhan, the Microcredit Foundation of India and Saadhana Microfin Society, other Indian entries include Grameen Koota (19th), Sharada's Women's Association for Weaker Section (23rd), SKS Microfinance Private Ltd (44th) and Asmitha Microfin Ltd (29th).

Criticisms
Recently, microfinance has come under fire in the state of Andhra Pradesh due to allegations of MFIs using coercive recollection practices and charging usurious interest rates.[16] These charges resulted in the state government's passing of the Andhra Pradesh Microfinance Ordinance on October 15, 2010. The Ordinance requires MFIs to register with the state government and gives the state government the power, suo moto, to shut down MFI activity. A number of NBFCs have been affected by the ordinance, including sector heavyweight SKS Microfinance.

Guidelines on Fair Practices Code for NBFCs

1. Introduction
The Reserve Bank vide its circular dated September 28, 2006, issued guidelines on Fair Practices Code (FPC) for all NBFCs to be adopted by them while doing lending business. The guidelines inter alia, covered general principles on adequate disclosures on the terms and conditions of a loan and also adopting a non-coercive recovery method. 1The same was revised in view of the recent developments with sector including creation of New Category of NBFCs viz; NBFC-MFI and also the rapid growth in NBFCs lending against gold jewellery. Revised circular was issued on March 26, 2012.

2. Guidelines on Fair Practices Code for NBFCs
A. (i) Applications for loans and their processing
(a) All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
(b) Loan application forms should include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other NBFCs can be made and informed decision can be taken by the borrower. The loan application form may indicate the documents required to be submitted with the application form.
The NBFCs should devise a system of giving acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed of should also be indicated in the acknowledgement.
(ii) Loan appraisal and terms/conditions
The NBFCs should convey in writing to the borrower in the vernacular language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with the terms and conditions including annualised rate of interest and method of application thereof and keep the acceptance of these terms and conditions by the borrower on its record. As complaints received against NBFCs generally pertain to charging of high interest /
1 Inserted vide DNBS.CC.PD.No.266/03.10.01/2011-12 dated March 26, 2012
penal interest, NBFCs shall mention the penal interest charged for late repayment in bold in the loan agreement.
It is understood that in a few cases, borrowers are not fully aware of the terms and conditions of the loans including rate of interest at the time of sanction of loans, either because the NBFC does not provide details of the same or the borrower has no time to look into detailed agreement. Not furnishing a copy of the loan agreement or enclosures quoted in the loan agreement is an unfair practice and this could lead to disputes between the NBFC and the borrower with regard to the terms and conditions. NBFCs are, therefore, advised to furnish a copy of the loan agreement as understood by the borrower along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.
(iii) Disbursement of loans including changes in terms and conditions
(a) The NBFCs should give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc. NBFCs should also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement.
(b) Decision to recall / accelerate payment or performance under the agreement should be in consonance with the loan agreement.
(c) NBFCs should release all securities on repayment of all dues or on realisation of the outstanding amount of loan subject to any legitimate right or lien for any other claim NBFCs may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which NBFCs are entitled to retain the securities till the relevant claim is settled/ paid.
(iv) General
(a) NBFCs should refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless information, not earlier disclosed by the borrower, has been noticed).
(b) In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e. objection of the NBFC, if any, should be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
(c) In the matter of recovery of loans, the NBFCs should not resort to undue harassment viz; persistently bothering the borrowers at odd hours, use muscle power for recovery of loans etc. As complaints from customers also include rude behavior from the staff of the companies, NBFCs shall ensure that the staff are adequately trained to deal with the customers in an appropriate manner.
(d) 2As a measure of customer protection and also in order to bring in uniformity with regard to prepayment of various loans by borrowers of banks and NBFCs, it is advised that NBFCs shall not charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned to individual borrowers, with immediate effect.
(v) Responsibility of Board of Directors
The Board of Directors of NBFCs should also lay down the appropriate grievance redressal mechanism within the organization. Such a mechanism should ensure that all disputes arising out of the decisions of lending institutions' functionaries are heard and disposed of at least at the next higher level. The Board of Directors should also provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews may be submitted to the Board at regular intervals, as may be prescribed by it.

2 Inserted vide DNBS(PD).CC. No. 399/03.10.42 /2014-15 dated July 14, 2014

(vi) 3Grievance Redressal Officer

At the operational level, all NBFCs have to display the following information prominently, for the benefit of their customers, at their branches / places where business is transacted:

(a) the name and contact details (Telephone / Mobile nos. as also email address) of the Grievance Redressal Officer who can be approached by the public for resolution of complaints against the Company.

(b) If the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of DNBS of RBI (complete contact details), under whose jurisdiction the registered office of the NBFC falls.

In short, the public notice should serve the purpose of highlighting to the customers, the grievance redressal mechanism followed by the company, together with details of the grievance redressal officer and of the Regional Office of the RBI.

(vii) Language and mode of communicating Fair Practice Code

Fair Practices Code (which should preferably in the vernacular language or a language as understood by the borrower) based on the guidelines outlined hereinabove should be put in place by all NBFCs with the approval of their Boards within one month from the date of issue of this circular. NBFCs will have the freedom of drafting the Fair Practices Code, enhancing the scope of the guidelines but in no way sacrificing the spirit underlying the above guidelines. The same should be put up on their web-site, if any, for the information of various stakeholders.

(viii) Regulation of excessive interest charged by NBFCs

(a) The Board of each NBFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and

3DNBS.CC.PD.No.320/03.10.01/2012-13 dated February 18, 2013

determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.

(b) The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the companies or published in the relevant newspapers. The information published in the website or otherwise published should be updated whenever there is a change in the rates of interest.

(c) The rate of interest should be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.

(ix) 4Complaints about excessive interest charged by NBFCs

The Reserve Bank has been receiving several complaints regarding levying of excessive interest and charges on certain loans and advances by NBFCs. Though interest rates are not regulated by the Bank, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. Boards of NBFCs are, therefore, advised to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges. In this regard the guidelines indicated in the Fair Practices Code about transparency in respect of terms and conditions of the loans are to be kept in view.

(x) 5Clarification regarding repossession of vehicles financed by NBFCs

NBFCs must have a built in re-possession clause in the contract/loan agreement with the borrower which must be legally enforceable. To ensure transparency, the terms and conditions of the contract/loan agreement should also contain provisions regarding: (a) notice period before taking possession; (b) circumstances under which the notice period can be waived; (c) the procedure for

4 DNBS.PD/CC.No.95/03.05.002/2006-07 dated May 24, 2007 and DNBS.(PD).C.C.No.133/03.10.001/2008-09 dated January 2, 2009

5 DNBS(PD)CC.No.139/03.10.001/2008-09 dated April 24, 2009

taking possession of the security; (d) a provision regarding final chance to be given to the borrower for repayment of loan before the sale / auction of the property; (e) the procedure for giving repossession to the borrower; and (f) the procedure for sale / auction of the property. A copy of such terms and conditions must be made available to the borrower in terms of circular wherein it was stated that NBFCs may invariably furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans, which may form a key component of such contracts/loan agreements.

B. NBFC-MFIs

In addition to the general principles as above, NBFC-MFIs shall adopt the following fair practices that are specific to their lending business and regulatory framework.

(i) General

(a) The FPC in vernacular language shall be displayed by an NBFC-MFI in its office and branch premises,

(b) A statement shall be made in vernacular language and displayed by NBFC-MFIs in their premises and in loan cards articulating their commitment to transparency and fair lending practices,
(c) Field staff shall be trained to make necessary enquiries with regard to existing debt of the borrowers,
(d) Training if any, offered to the borrowers shall be free of cost. Field staff shall be trained to offer such training and also make the borrowers fully aware of the procedure and systems related to loan / other products,
(e) The effective rate of interest charged and the grievance redressal system set up by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it (in vernacular language) and on its website,
(f) A declaration that the MFI will be accountable for preventing inappropriate staff behaviour and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises,
(g) The KYC Guidelines of RBI shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers,
(h) As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, all sanctions and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function,
(i) Adequate steps may be taken to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.
(ii) Disclosures in loan agreement / loan card
(a) All NBFC-MFIs shall have a Board approved, standard form of loan agreement. The loan agreement shall preferably be in vernacular language.
(b) In the loan agreement the following shall be disclosed:
i. all the terms and conditions of the loan,
ii. that the pricing of the loan involves only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof),
iii. that there will be no penalty charged on delayed payment,
iv. that no Security Deposit / Margin is being collected from the borrower,
v. that the borrower cannot be a member of more than one SHG / JLG,
vi. the moratorium period between the grant of the loan and the due date of the repayment of the first installment(as guided by the NBFC-MFIs(Reserve Bank) Directions, 2011),
vii. an assurance that the privacy of borrower data will be respected.
(c) The loan card should reflect the following details as specified in the Non-Banking Financial Company - Micro Finance Institutions (Reserve Bank) Directions, 2011:
i. the effective rate of interest charged,
ii. all other terms and conditions attached to the loan,
iii. information which adequately identifies the borrower and acknowledgements by the NBFC-MFI of all repayments including installments received and the final discharge,
iv. The loan card should prominently mention the grievance redressal system set up by the MFI and also the name and contact number of the nodal officer,
v. Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself,
vi. All entries in the Loan Card should be in the vernacular language.
(iii) Non-Coercive Methods of Recovery
As specified in the NBFC-MFIs (Reserve Bank) Directions, 2011, recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on two or more successive occasions.
NBFC-MFIs shall ensure that a Board approved policy is in place with regard to Code of Conduct by field staff and systems for their recruitment, training and supervision. The Code should lay down minimum qualifications necessary for the field staff and shall have necessary training tools identified for them to deal with the customers. Training to field staff shall include programs to inculcate appropriate behavior towards borrowers without adopting any abusive or coercive debt collection / recovery practices. Compensation methods for staff should have more emphasis
on areas of service and borrower satisfaction than merely the number of loans mobilized and the rate of recovery. Penalties may also be imposed in cases of non-compliance by field staff with the Code of conduct. Generally only employees and not out sourced recovery agents be used for recovery in sensitive areas.
(iv) Internal control system

As the primary responsibility for compliance with the Directions rests with the NBFC-MFIs, they shall make necessary organizational arrangements to assign responsibility for compliance to designated individuals within the company and establish systems of internal control including audit and periodic inspection to ensure the same.

C. Lending against collateral of gold jewellery

While lending to individuals against gold jewellery, NBFCs shall adopt the following in addition to the general guidelines as above.

(i) They shall put in place Board approved policy for lending against gold that should inter alia, cover the following:

(a) Adequate steps to ensure that the KYC guidelines stipulated by RBI are complied with and to ensure that adequate due diligence is carried out on the customer before extending any loan,

(b) Proper assaying procedure for the jewellery received,

(c) Internal systems to satisfy ownership of the gold jewellery,

(d) Adequate systems for storing the jewellery in safe custody, reviewing the systems on an on-going basis, training the concerned staff and periodic inspection by internal auditors to ensure that the procedures are strictly adhered to. Normally, such loans should not be extended by branches that do not have appropriate facility for storage of the jewellery,

(e) The jewellery accepted as collateral should be appropriately insured,

(f) Transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There should be no conflict of interest and the auction
process must ensure that there is arm's length relationship in all transactions during the auction including with group companies and related entities,

(g) The auction should be announced to the public by issue of advertisements in at least two newspapers, one in vernacular language and another in national daily newspaper,

(h) As a policy, the NBFCs themselves should not participate in the auctions held,

(i) Gold pledged will be auctioned only through auctioneers approved by the Board,

(j) The policy shall also cover systems and procedures to be put in place for dealing with fraud including separation of duties of mobilization, execution and approval.

(ii) The loan agreement shall also disclose details regarding auction procedure.

NON-BANKING FINANCIAL COMPANY-MICRO FINANCE INSTITUTIONS' (NBFC-MFIS)

I. Introduction

As indicated in the Second Quarter Review of Monetary Policy in November 2010, a Sub-Committee of the Central Board of the Reserve Bank (Chairman: Shri Y. H. Malegam) was constituted to study issues and concerns in the MFI sector. The Committee submitted its report in January 2011. In the Monetary Policy Statement 2011-12, it was announced that the broad framework of regulations recommended by the Committee has been accepted by the Bank. Accordingly, a separate category of NBFCs viz. Non-Banking Financial Company-Micro Finance Institution (NBFC-MFI) was formed and separate directions were issued vide Notification DNBS.PD.No.234 CGM (US) 2011 dated December 02, 2011 containing the regulatory framework for NBFC-MFIs.

II. The Non-Banking Financial Company -Micro Finance Institutions (Reserve Bank) Directions, 2011

1. Definition of NBFC-MFI

An NBFC-MFI is defined as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) that fulfils the following conditions:

i. Minimum Net Owned Funds of Rs.5 crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs. 2 crore).

ii. Not less than 85% of its net assets are in the nature of "qualifying assets." 1(Only the assets originated on or after January 1, 2012 will have to comply with the Qualifying Assets criteria. As a special dispensation, the existing assets as on January 1, 2012 would be reckoned towards meeting both the Qualifying Assets criteria as well as the Total Net Assets criteria. These assets would be allowed to run off on maturity and cannot be renewed).

1 Inserted vide DNBS (PD) CC.No.300 /03.10.038/2012-13 dated August 03 , 2012

For the purpose of ii above,

"Net assets" are defined as total assets other than cash and bank balances and money market instruments.

"Qualifying asset" shall mean a loan which satisfies the following criteria:-

2[a.loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs. 1,00,000 or urban and semi-urban household income not exceeding Rs. 1,60,000 ;
b. loan amount does not exceed Rs. 60,000 in the first cycle and Rs. 1,00,000 in subsequent cycles;
c. total indebtedness of the borrower does not exceed Rs.1,00,000 Provided that loan, if any availed towards meeting education and medical expenses shall be excluded while arriving at the total indebtedness of a borrower;]
d. 3tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 30,000 with prepayment without penalty;
e. loan to be extended without collateral;
f.4 aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs
g. loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower
iii. Further the income an NBFC-MFI derives from the remaining 15 percent of assets shall be in accordance with the regulations specified in that behalf.
iv. An NBFC which does not qualify as an NBFC-MFI shall not extend loans to micro finance sector, which in aggregate exceed 10% of its total assets.

2. Regulatory Framework for NBFC-MFIs
A. 5 Entry Point Norms
i. **Existing NBFCs**
a. All registered NBFCs intending to convert to NBFC-MFI were advised to seek registration not later than October 31, 2012, subject to the condition that they shall maintain Net Owned Funds (NOF) at Rs.3 crore by March 31, 2013 and at Rs.5 crore by March 31, 2014, failing which they must ensure that lending to the Microfinance sector i.e. individuals, SHGs or JLGs which qualify for loans from MFIs, will be restricted to 10 per cent of the total assets.

b. In order to provide encouragement to NBFCs operating in North Eastern Region, the minimum NOF was to be maintained at Rs.1 crore by March 31, 2012 and at Rs.2 crore by March 31, 2014.

ii. **New Companies**
All new companies desiring NBFC-MFI registration will need a minimum NOF of Rs.5 crore except those in the North Eastern Region of the country which will require NOF of Rs.2 crore till further notice, as hitherto and would comply, from the beginning, with all other criteria laid out in the following paragraphs.
B. Prudential Norms
i. Capital Adequacy
All new NBFC-MFIs shall maintain a capital adequacy ratio consisting of Tier I and Tier II Capital which shall not be less than 15 percent of its aggregate risk weighted assets. The total of Tier II Capital at any point of time, shall not exceed 100 percent of Tier I Capital. The risk weights for on-balance sheet assets and the credit conversion factor for off-balance sheet items will be as provided in para 16 of the Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Non-Systemically

Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015.
Note:
a. Among the existing NBFCs to be classified as NBFC-MFIs, those with asset size less than Rs. 100 crore were required to comply with this norm w.e.f April 01, 2012. Those with asset size of Rs. 100 crore and above were already required to maintain minimum CRAR of 15%.
b. The CRAR for NBFC-MFIs which have more than 25% loan portfolio in the state of Andhra Pradesh will be at 12% for the year 2011-2012 only. Thereafter they have to maintain CRAR at 15%.
6c. For the calculation of CRAR, the provisioning made towards AP portfolio shall be notionally reckoned as part of NOF and there shall be progressive reduction in such recognition of the provisions for AP portfolio equally over a period of 5 years. Accordingly 100 per cent of the provision made for the AP portfolio as on March 31, 2013 would be added back notionally to NOF for CRAR purposes as on that date. This add-back would be progressively reduced by 20 per cent each year i.e. up to March 2017. An illustration of this has been provided in Annex-3. No write-back or phased provisioning is permissible.

d. Capital adequacy on non-AP portfolio and the notional AP portfolio (outstanding as on the balance sheet date less the provision on this portfolio not notionally added back) will have to be maintained at 15 per cent of the risk weighted assets].

ii. Asset Classification and Provisioning Norms:

With effect from 7April 01, 2013, all NBFC-MFIs shall adopt the following norms (till then they were allowed to follow the asset classification and provisioning norms as given in the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2007).

a. Asset Classification Norms:

i. Standard asset means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

ii. Nonperforming asset means an asset for which, interest/principal payment has remained overdue for a period of 90 days or more.

b. Provisioning Norms:

8In view of the problems being faced by MFIs in Andhra Pradesh many of them have had to provide sizeable amounts towards the non-performing assets in the state. To reflect the true and fair picture of the financials of the NBFC-MFI in the Balance Sheet, the provisioning made towards the AP portfolio were to be as per the current provisioning norms i.e. Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015. Provisioning for the non-AP portfolio would be as per the December 02, 2011 Directions with effect from April 1, 2013 which is as given below:

'The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of a) 1% of the outstanding loan portfolio or b) 50% of the aggregate loan instalments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan instalments which are overdue for 180 days or more'.

All other provisions of the Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 will be applicable to NBFC-MFIs except as indicated therein.

C. Other Regulations

a. Pricing of Credit

i. 9The margin cap for all NBFCs irrespective of their size was 12 per cent till March 31, 2014. However, with effect from 1st April, 2014 margin caps as defined by Malegam Committee may not exceed 10 per cent for large MFIs (loans portfolios exceeding Rs.100 crore) and 12 per cent for the others.

10ii. With effect from the quarter beginning April 01, 2014, the interest rates charged by an NBFC-MFI to its borrowers will be the lower of the following:

a) The cost of funds plus margin as indicated in para (i) above; or

b) The average base rate of the five largest commercial banks by assets multiplied by 2.75. The average of the base rates of the five largest commercial banks shall be advised by the Reserve Bank on the last working day of the previous quarter, which shall determine interest rates for the ensuing quarter.

iii. 11NBFC-MFIs will ensure that the average interest rate on loans during a financial year does not exceed the average borrowing cost during that financial year plus the margin, within the prescribed cap. Moreover, while the rate of interest on individual loans may exceed 26%, the maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent. The average interest paid on borrowings and charged by the MFI are to be calculated on average monthly balances of outstanding borrowings and loan portfolio respectively. The figures may be certified annually by Statutory Auditors and also disclosed in the Balance Sheet.

12However, the condition relating to the maximum variance permitted shall not be applicable to loans extended by NBFC-MFIs against funding by National Scheduled Castes Finance & Development Corporation (NSFDC).

The on-lending to individuals by NBFC-MFIs out of funds of NSFDC shall only be through direct credit to their accounts with banks. Further, NBFC-MFIs shall exclude borrowing from NSFDC in arriving at the average cost of funds of the company for the purpose of pricing of credit, other than to the beneficiaries targeted by NSFDC. For this, NBFC-MFIs shall maintain proper record of funds received from NSFDC and the lending out of those funds. Appropriate disclosures in this regard shall be made in the balance sheet of such NBFC-MFIs. The minimum disclosures should include quantum of funds received from NSFDC, cost of such funds, loans disbursed therefrom, rate of interest on such loans and the number of beneficiaries. Further, NBFC-MFIs shall inform the concerned Regional Office of the Reserve Bank of India of their appointment as a channelising agent by NSFDC within one month from the date of such appointment.

iv. Processing charges shall not be more than 1 % of gross loan amount. Processing charges need not be included in the margin cap or the interest cap.

v. NBFC-MFIs shall recover only the actual cost of insurance for group, or livestock, life, health for borrower and spouse. Administrative charges where recovered, shall be as per IRDA guidelines.

b. Fair Practices in Lending

I. **Transparency in Interest Rates**

a. There shall be only three components in the pricing of the loan viz. the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof).
b. There will be no penalty charged on delayed payment.
c. NBFC-MFIs shall not collect any Security Deposit/ Margin from the borrower.
d. There should be a standard form of loan agreement.
e. Every NBFC-MFI should provide to the borrower a loan card reflecting
(i) the effective rate of interest charged;
(ii) all other terms and conditions attached to the loan;

(iii) information which adequately identifies the borrower; and
(iv) acknowledgements by the NBFC-MFI of all repayments including instalments received and the final discharge;
(v) All entries in the Loan Card should be in the vernacular language.
f. The effective rate of interest charged by the NBFC-MFI should be prominently displayed in all its offices and in the literature issued by it and on its website.

II. **Multiple-lending, Over-borrowing and Ghost-borrowers**

a) NBFC-MFIs can lend to individual borrowers who are not member of Joint Liability Group(JLG)/Self Help Group(SHG) or to borrowers that are members of JLG/SHG.

b) a borrower cannot be a member of more than one SHG/JLG.

c) not more than two NBFC-MFIs should lend to the same borrower.

d) there must be a minimum period of moratorium between the grant of the loan and the due date of the repayment of the first instalment. The moratorium shall not be less than the frequency of repayment. For eg: in the case of weekly repayment, the moratorium shall not be less than one week.

e) recovery of loan given in violation of the regulations should be deferred till all prior existing loans are fully repaid.

f) All sanctioning and disbursement of loans should be done only at a central location and more than one individual should be involved in this function. In addition, there should be close supervision of the disbursement function.

13lll. **Ensuring Compliance with Conditionalities**
Membership of Credit Information Companies will facilitate ensuring compliance with many of these conditionalities. Accordingly it is reiterated that every NBFC-MFI has to be a member of at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, provide timely and accurate data to the CICs and use the data available with themto ensure compliance with the conditions regarding membership of SHG/ JLG, level of indebtedness and sources of borrowing. While the quality and coverage of data with CICs will take some time to become robust, the NBFC-MFIs may rely on self certification from the borrowers and their own local enquiries on these aspects as well as the annual household income.

IV. **Non- Coercive Methods of Recovery**

a) NBFC-MFIs shall ensure that a Code of Conduct and systems are in place for recruitment, training and supervision of field staff. The Code of Conduct should also incorporate the Guidelines on Fair Practices Code issued for NBFCs vide circular CC No.80 dated September 28, 2006 as amended from time to time.

b) Recovery should normally be made only at a central designated place. Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions.

c) All other elements of the Fair Practices Code issued for NBFCs vide CC No 80 dated September 28, 2006 as amended from time to time shall be adhered to.

c. Corporate Governance
The Master Circular issued for NBFCs on Corporate Governance dated July 01, 2015 shall be applicable to NBFC-MFIs also.

d. Improvement of Efficiency
NBFC-MFIs shall review their back office operations and make the necessary investments in Information Technology and systems to achieve better control, simplify procedures and reduce costs.

e. Others
All NBFCs may refer to the circular RPCD.CO.Plan BC.66/04.09.01/2010-11 dated May 3, 2011 (as amended from time to time) issued by the Rural Planning and Credit Department of RBI titled “Bank loans to Micro Finance Institutions (MFIs) – Priority Sector status” issued to banks with regard to guidelines on priority sector.

14(f) MFIs acting as Channelizing Agents for Schemes operated by Central/State Government Agencies

i) With a view to facilitate the use of NBFC-MFI network to distribute such targeted loans, it has been decided that

(a) loans disbursed or managed by NBFC-MFIs in their capacity as channelizing agents for Central/State Government Agencies shall be considered as a separate business segment. These loans shall not be included either in the numerator (qualifying assets) or the denominator (total assets) for the purpose of determining the minimum qualifying assets criteria, at present, 85 percent;

(b) consequent to (i) above, the interest charged on such loans shall be excluded for determining the variance between the maximum and minimum interest rate;

(c) the cost of such funds shall not be reckoned for arriving at average cost of funds as well as interest rates charged to borrowers as per NBFC-MFIs directions.

ii) The NBFC-MFIs are hereby granted general permission to act as channelising agents for distribution of loans under special schemes of Central/State Government Agencies subject to following conditions:

(a) accounts and records for such loans as well as funds received/ receivable from concerned agencies shall be maintained in the books of NBFC-MFI distinct from other assets and liabilities, and depicted in the financials/ final accounts/balance sheet with requisite details and disclosures as a separate segment;

(b) such loans shall be subject to applicable asset classification, income recognition and provisioning norms as well as other prudential norms as applicable to NBFC-MFIs except in cases where the NBFC-MFI does not bear any credit risk;
(c) all such loans shall be reported to credit information companies (CICs) to prevent multiple borrowings and present complete picture of indebtedness of a borrower.

3. Statutory Auditors Certificate

In terms of paragraph 15 of the Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 or Non-Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015, all NBFCs are required to submit Statutory Auditors Certificate with reference to the position of the company as at end of the financial year ended March 31 every year. For an NBFC-MFI, such Certificate will also indicate that the company fulfils all conditions stipulated to be classified as an NBFC-MFI in this circular.

4. Fair Practices Code

Taking into consideration the specific business nature of NBFC-MFIs, they are subject to specific guidelines issued vide DNBS.CC.PD.No.266 dated March 26, 2012 on Fair Practice Code (FPC) in addition to the general FPC applicable to all NBFCs.15 All elements of the Fair Practices Code issued by the Bank vide its Master Circular in this regard dated July 1, 2015 will need to be adhered to by the NBFC-MFIs. NBFC-MFIs must also ensure that greater resources are devoted to professional inputs in the formation of SHG/ JLG and appropriate training and skill development activities for capacity building and empowerment after formation of the groups.
16All NBFC-MFIs are expected to be prudent and responsible in their lending activity besides educating their borrowers on the dangers of wasteful conspicuous consumption.

5. 17[Geographical Diversification

NBFC-MFIs may approach their Boards for fixing internal exposure limits to avoid any undesirable concentration in specific geographical locations.

6. Formation of SRO

The Malegam Committee has recommended greater responsibility to be placed on industry associations for monitoring of regulatory compliance. All NBFC-MFIs are encouraged to become member of at least one Self-Regulatory Organization (SRO) which is recognized by the Reserve Bank and will also have to comply with the Code of Conduct prescribed by the SRO. 18Guidelines on the SRO structure have been issued.

7. Monitoring of Compliance

The responsibility for compliance to all regulations prescribed for MFIs lies primarily with the NBFC-MFIs themselves. The industry associations/SROs will also play a key role in ensuring compliance with the regulatory framework. In addition, banks lending to NBFC-MFIs will also ensure that systems practices and lending policies in NBFC-MFIs are aligned to the regulatory framework.

8. Application for Registration as NBFC-MFIs

All existing NBFCs intending to be registered as NBFC-MFIs were advised to seek registration with immediate effect as stipulated in para (2.A.i.a.) in the enclosed format (Annex-1) to the Regional Office in the jurisdiction of which their registered office is located along with the original Certificate of Registration (CoR) issued by the

Bank for change in their classification as NBFC-MFIs. The change in classification would be incorporated in the CoR as NBFC-MFI. New companies will need to provide additional information.

IMPACT OF MICROFINANCE ON SUSTAINABLE ENTREPRENEURSHIP DEVELOPMENT

The proponents of inclusive financial growth believe that giving relatively larger loans to the non-poor or near-poor entrepreneurs is the response of the microfinance institutions (MFIs) toward the demand of a existing and potential clients. But opponents are more likely to consider response such as mission drift by the MFIs. Therefore, this study attempts to measure the effectiveness of such microenterprise loans on increasing entrepreneurs' incomes and innovation. Our findings support the proponents of giving loans to entrepreneurs. Findings suggest that larger loans increase income, but less innovative business practice might threaten such income. Therefore, we recommend that microenterprise loans associated with proper business skills, information, and technologies be provided by MFIs with careful screening and monitoring to ensure the effective utilization of loan capital.

Introduction

Microfinance in Bangladesh has inherited a long history of innovative financial inclusion. After a couple of decades of development, the term microfinance is still recognized as relatively new. A more popular and practical term has been microcredit, which emphasizes the main focus of the various financial institutions involved, although small savings have always been a part of microcredit operations. Gradually, in response to demand, other services such as savings, insurance (life and non-life) and remittance services have been developed or piloted and are now being bundled together under the term microfinance (Another important feature has been the focus on the poor. Although this focus very much remains, in order to achieve greater sustainability, the MFIs also offer services to non-poor such as small farmers and microentrepreneurs. Therefore, the scope and target beneficiaries have evolved over time since the establishment of the Grameen Bank in 1983. The development trends of the term 'microfinance' likely include many financial products for both the poor and the near-poor and we would like to focus more on the term 'financial inclusion'.[1]1. Financial inclusion is a multi-dimensional, pro-client concept, encompassing increased access, better products and services, better informed and equipped consumers, and effective use of products and services. Putting this concept into practice requires more than institutional expansion and portfolio growth. Balancing clients' interests and providers' viability, financial inclusion incorporates effective policies, legislation, industry and consumer protection standards, and financial capability (Ledgerwood et al. 2013Ledgerwood, J., J. Earne, and C.Nelson, eds. 2013. *The New Microfinance Handbook: A Financial Market System Perspective*. Washington, DC: World Bank Publications.[Crossref], [Google Scholar]).View all notes However, there are two opposite schools of thought regarding the inclusion of non-poor or near-poor in the microfinancial market; first, academics identify the need for commercializing microfinance for sustainable financial development and second, they identify the microfinance mission drift (increasing loans to individuals rather than to a group, to men rather than women, to urban people rather than rural people and reaching out to wealthy clients rather than to the poor). The proponents of the first school of thought encourage loans with increasingly larger amounts given to non-poor (or near-poor) that is, microentrepreneurs and small farmers, and believe that this is a trend of more established organizations that have the opportunity to build up a 'graduated' client base ready for such loans. Therefore, it is not yet a sign of mission drift in the fundamental sense because the client base and the initial loan amounts are the same: only the average loan amounts are increasing (Charitonenko and Rahman 2002Charitonenko, S., and S. M.Rahman. 2002. *Commercialization of Microfinance, Bangladesh*. Manila: Asian Development Bank. [Google Scholar]). The opponents of this school of thought believe that mission drift is occurring as more small NGOs are likely to engage increasingly in microenterprise lending, since most NGOs in this group are unlikely to have been established long enough to have 'graduated' clients and may be seeking to expand their client base by attracting high-income, lower-risk clients. Based on the first school of thought, the present study conducted a field investigation on microenterprise clients of various microfinance suppliers and measured the potential impact of such loans in developing sustainable incomes and entrepreneurship development.

Most of the earlier studies on microfinance in Bangladesh have focused on either economic impact or on the social impact of microfinance, but such studies have overlooked one important point that is the necessity of innovation to widen the economic and welfare impacts of microfinance. Similar to the term 'Shanzhai innovation'[2]2. *Shanzhai* innovation was motivated to construct a regional advantage, by addressing markets and reinforcing the capacity of the whole local community, and then increasing 'the number, size and efficiency of companies in a region.' For details see Rousseau (2012Rousseau, Jean-Marie. 2012. "Innovation: Why Smart Strategies Are Neither Necessarily Competitive Nor Intelligent?" International Conference on Competitive Intelligence, Peking University, China. [Google Scholar])View all notes in China and 'Jugaad'[3]3. *Jugaad* is an Indian term widely used by poor people all around the world and related to innovative behavior in order to provide a fast and alternative solution to a technological or a technical problem as an improvised arrangement or work-around, which has to be used because of lack of resources. This *Jugaad* movement can gather a community of enthusiasts, which is very similar to the micro-credit concept in terms of poor targeted population, as well as a cost-effective way to solve the issues of everyday life. It is commonly used when describing a work-around to get through commercial, logistical, or legal issues. Similarly, *Jugaad* may refer to an idea from which a person can control his or her budget, or from which they may acquire commodities, low-cost transportation in rural areas, and free (free of charge) access to public services. For details see MPI (2013MPI (Martin Prosperity Institute). 2013. *Understanding the Creative Economy in India*. Martin Prosperity

Institute.http://martinprosperity.org/media/Creative%20India_v01_02%20May%202013_FINAL%20web.pdf. [Google Scholar]).View all notes in India, microfinance in Bangladesh could also be an organized industry for innovative and creative solutions to alleviating the financial problems of poor rural and urban populations in this country. The introduction of microfinance in Bangladesh (i.e. through the *Grameen Bank*) was seen as a useful way to alleviate the financial problems of the majority of the population, as most of them are not well off economically. Therefore, this study focuses on the impact of the microenterprise loan products of MFIs on building sustainable entrepreneurship by considering the role of innovation. Innovation is generally neglected when entrepreneurship is related with poor people especially in countries like Bangladesh.

The logical sequence of the paper is: following the introduction, the first section provides a brief description of microenterprise and microfinance development perspectives, an overview of the microenterprise loan products in Bangladesh, and literature review and hypothesis development; the second section provides, methodologies for data analysis and application; the third, results of the analysis and lessons to be drawn; and finally, concluding remarks for inclusive financial growth and sustainable entrepreneurship development.

DEVELOPMENT OF MICROENTERPRISE AND MICROFINANCE

Microfinance and microenterprise development has a lineal sequence. It is argued that from the late 1970s to the very late 1980s when major donors discussed Small and Medium Enterprise (SME) promotion, the operative term was 'business' or 'enterprise' and the thrust was on helping them grow and gain a greater share of the market. The developmental assumption was that small enterprises were important net generators of jobs, and that the backward and forward linkages produced by a vibrant SME sector contributed to economic growth .Thus during the 1970s and 1980s, developmental policies were dominated by the terms SSE and SME (for small-scale enterprise and small and medium enterprise). Later, it was recognized that the definition and measures of the term 'small' used in the 1970s and 1980s was wide ranging and did not include the concerns that provide benefits to the poorest sector of the population. Therefore, this trickle-down theory was modified to include the business opportunities pursued by the poorer entrepreneurs and came to be called, in the late 1980s, 'microenterprises' – a fundamentally different segment of the market which became a more popular target for intervention.

Farbman and Lessik introduced a simple way of describing the SME sector, identifying four major categories: survival activities; and micro, small, and medium-sized enterprises (MSMEs)

According to Molenaar (2009Molenaar, K. 2009. "Microfinance, Its Concepts and Development, Lessons to Draw for Europe." Paper prepared for the conference on "Implementing the EU Microcredit Initiative What can be learned from developing and transforming countries?", European Microfinance the emergence of microfinance activities was followed in the 1980s when the state and donors withdrew from support programs for the SME sector. People were expected to pay for the services offered (without further subsidies), and NGOs were expected to take over the tasks of the public sector. Although donors told NGOs to become financially sustainable, NGOs could only do so if they could offer a product for which people are willing to pay. Microcredit became such a product, with large numbers of poor women and men willing to pay for it. The market consisted of poor people who initiated very small economic activities, often generating some additional income next to other income generated by the household. With the introduction of microcredit as the single support instrument, attention shifted dramatically from SME development to the survival economy, but not yet to the microenterprise sector. This came later, when microcredit evolved into microfinance, and when group-based credit distribution systems evolved into individual lending, new services and products were developed and loan amounts increased slightly. The next step saw NGOs graduate in to non-bank financial Institutions, which in turn graduated into (quasi-)banks attending micro and even small entrepreneurs.

MICROENTERPRISE SECTORS IN BANGLADESH

Microenterprise sectors in Bangladesh are very often termed as MSMEs, which consist of a heterogeneous group of agricultural and industrial sub-sectors such as – agro-processing farms, crops, poultry, fisheries, livestock, rural non-farm, handlooms and handicrafts, plastic products, textile dying and block printing (manual), footwear, cartwheels, computer software and information technology, silk weaving, small grocery stores, petty trades. The International

Consulting Group comprehensive survey in 2003 reported the total number of MSMEs at 6 million enterprises. These enterprises employ 31 million people and account for roughly 25% of the GDP. About 75% of these enterprises are located in rural areas, reflecting the high proportion of the population residing in rural areas. Ninety percent of all MSMEs have fewer than 10 workers, and just 2% have between 51 and 100 (Alam and Ullah 2006Alam, M. S., and M. A. Ullah. 2006. "SMEs in Bangladesh and Their Financing: An Analysis and Some Recommendations." *The Cost and Management* 34 (3): 57–72. [Google Scholar]). This sub-sector in Bangladesh is facing an acute financial problem, which threatens their smooth growth. About 50% of MSMEs have no access to a formal source of finance. Realizing the importance of the MSME sector, Bangladesh Bank encourages financial intermediaries to provide financial support to MSMEs. Accordingly, State Commercial Banks, Specialized Banks, Private Commercial Banks, Foreign Commercial Banks, and MFIs have been engaged in MSME lending programs (Parvin, Jinrong, and Wakilur Rahman 2012Parvin, L., J. Jinrong, and M.Wakilur Rahman. 2012. "Women Entrepreneurship Development in Bangladesh: What Are the Challenges Ahead." *African Journal of Business Management* 6 (11): 3862–3871. [Google Scholar]).

Microenterprise loan products in Bangladesh

The microfinance market in Bangladesh is one of the largest in the world and comparatively matured. In most of Bangladesh, there is a very high density of MFIs, and now MFIs are largely in competition with each other, instead of exclusively with banks or other financial institutions, in attracting borrowers (Mahmoud, Khalily, and Wadood 2009Mahmoud, C. S., M. A. Khalily, and S. N. Wadood. 2009. "Traditional microcredit products are no longer enough to increase outreach. Therefore, microfinance service providers are now developing many innovative products to reach new customer segments or retaining the existing segments. Under such competitive pressures, microenterprise loans have become another distinctive market segment being served by the MFIs. This has been due to several factors: demand from better-performing ('graduating') borrowers for larger loans compared to loans normally given under 'mainstream microcredit', and demand from small enterprises throughout the country, who are not members of microcredit groups but willing to take loans for running or expanding businesses and small enterprises that do not qualify for receiving loans from commercial banks but need capital for running a larger business. MFIs are also actively seeking to expand their portfolios (and income) by serving this group

Microenterprises generally have a single owner-operator structure, although some are structured as partnerships. The microfinance industry applies the following working definition for microenterprise: an enterprise that has capital (i.e. total investment, including fixed assets and working capital) between Tk. 30,000 and Tk. 1 million ($430–$14,300) and less than 10 workers (Haque and Mahmud 2003Haque, A. K. E., and S. Mahmud. 2003.

In case of financing, the borrowers may be 'graduates' of microcredit programs or existing microenterprises managed by 'near-poor' or non-poor who are given individual loans. The loans could be given for any farm and non-farm business, including agro-processing and large-scale poultry, livestock, and fisheries. The program is also separately identified and managed within the MFIs. Table 1 provides an overview of microenterprise loan products in Bangladesh.

Literature review and hypotheses development

Most microfinance studies in Bangladesh are limited to either one or two major MFIs or to the overall impact on clients' poverty reduction, improvement in health and social status, enhancement of women entrepreneurship and empowerment, etc. No studies in Bangladesh, to the best of the author's knowledge, have yet considered innovation and sustainable entrepreneurship..Lack of capital prevents the poor from increasing their income through entrepreneurship Financial resources, however, allow time for adopting new businesses to develop products/services, learning business processes, and finding a niche in the market. Bradely, McMullen, argue that loan capital might enhance entrepreneurs' income where markets are less developed and innovation might have little impact on income. Based on such assumption, hypothesis H_1 was developed.**H_1**: Loan size has significant relation with (a) innovation and (b) income. Innovation is central to economic change. Whether these changes are 'radical' or 'incremental', they play an important role in economic growth beyond the traditional inputs of labor, capital, or scale effects

H_2: Innovation has significant relation with income.

H_3: Competitive intensity has negative relation with (a) innovation and (b) business income.

H_4: Lending group network has significant impact on (a) innovation and (b) income. General education increases analytical ability to assume opportunities and pursue innovative ideas. Therefore, it is assumed that-

H_5: General education has a significant relation with (a) innovation and (b) income. Business experience can be applied to recognize opportunities to innovate in the market. So hypothesis H_6 was developed:

H_6: Business experience has significant relation with (a) innovation and (b) income.

INDIAN ACCOUNTING STANDARDS

The Accounting Standards are issued under the authority of the Council of the ICAI. The Accounting Standards Board (ASB) was constituted by the Institute of Chartered Accountants of India in April, 1977 with a view to harmonise the diverse accounting policies and practices in India. Themain function of the ASB is to formulate Accounting Standards. ASB determines broad areas in which Accounting Standards need to be formulated.While formulating the Accounting Standards, ASB gives consideration to the International Accounting Standards issued by the International Accounting Standards Committee and integrates them in the light of applicable laws, customs, usages and business environment prevailing in India. ASH also issues Guidance Notes on the Accounting Standards and gives clarifications on issues arising there from. ICAI has issued the Compendium of Accounting Standards (ASs) as on July 1, 2003, covering ASs 1-28, Accounting Standards Interpretations and General Clarifications. It is expected by ICAI that the Accountants responsible for preparation of the financial statements must prepare the same with prudence and taking into account the guidelines and suggestion of the Accounting Standards Board.
No. **Title of the accounting Date fromwhichmandatory**
AS 1 Disclosure of accounting policies 1-4-1991—companies.1-4-1993- forall
AS 2 (Revised) Valuation of inventories 1-4-1999
AS 3 (Revised) Cash flowstatements 1-4-2001
AS 4 (Revised) Contingencies and events occurring after the balance
sheet date
1-4-1995
AS 5 (Revised) Net profit or loss for the period, prior period items and
changes in accounting policies
1-4-1996
AS 6 (Revised) Depreciation accounting 1-4-1995
AS 7 (Revised) Construction contracts 1-4-2003
AS 8 Accounting for research and development withdrawn wef date of applicability of
as 26
AS 9 Revenue recognition as in case of as 1 above
AS 10 Accounting for fixed assets as in case of as 1 above
AS 11 (Revised) Accounting for the effects of changes in foreign
exchange rates
1-4-1995
AS 12 Accounting for government grants 1-4-1994
AS 13 Accounting for investments 1-4-1995
AS 14 Accounting for amalgamations 1-4-1995
AS 15 Accounting for retirement benefits in the financial
statements of employers
1-4-1995
AS 16 Borrowing costs 1-4-2000

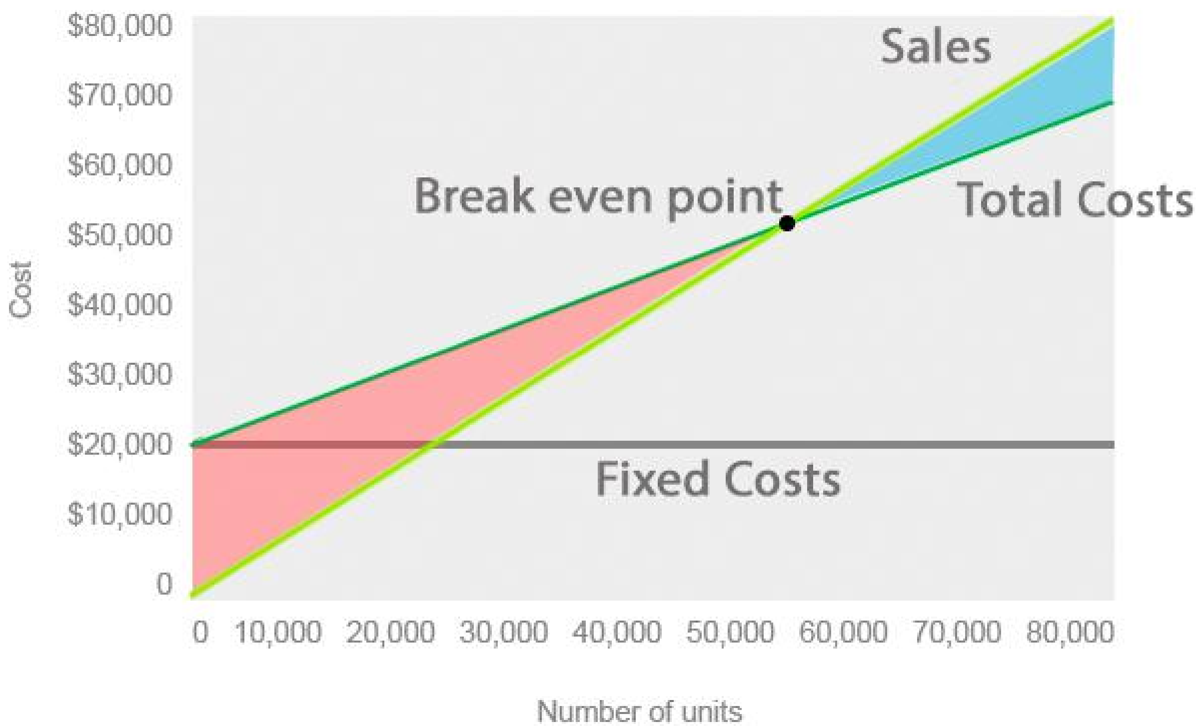
AS 17 Segment reporting 1-4-2001
AS 18 Related party disclosures 1-4-2001
AS 19 Leases assets teased during periods
commencing on or after 1.4.2001
AS 20 Earnings per share 1-4-2001
AS 21 Consolidated financial statements 1-4-2001
AS 22 Accounting for taxes on income see note 5

AS23 Accounting for investments in associates in
consolidated financial statementss
1-4-2002
AS 24 Discontinuing operations 1-4-2004/ 1-4-2005
AS 25 Interimfinancial reporting 1-4-2002
AS 26 Intangible assets 1-4-2003 / 1-4-2004
AS 27 financial reporting of interests in joint ventures 1-4-2002
AS 28 Impairment of assets 1-4-2004/1-4-2005
AS 29 Provisions, contingent liabilities and contingent
assets In the process of being finalized

What is Cost Volume Profit Analysis (CVP)?

Definition: The cost volume profit analysis, commonly referred to as CVP, is a planning process that management uses to predict the future volume of activity, costs incurred, sales made, and profits received. In other words, it's a mathematical equation that computes how changes in costs and sales will affect income in future periods.

What Does Cost Volume Profit Analysis Mean?
The CVP analysis classifies all costs as either fixed or variable. Fixed costs are expenses that don't fluctuate directly with the volume of units produced. These costs effectively remain constant. An example of a fixed cost is rent. It doesn't matter how many units the assembly line produces. The rent expense will always be the same.



Example
Variable costs, on the other hand, change with the levels of production. These costs include materials and labor that go into each unit produced. For example, a bike factory would classify bicycle tire costs as a variable cost. Every bike that is produced must have two tires. The more units produced, the more tire costs increase.

Cost Volume Profit CVP Example

The CVP analysis uses these two costs to plot out production levels and the income associated with each level. As production levels increase, the fixed costs become a smaller percentage of total income while variable costs remain a constant percentage. Cost accountants and management analyze these trends in an effort to predict what costs, sales, and profits the company will have in the future.

They also use cost volume profit analysis to calculate the break-even point in production processes and sales. The break-even point is drawn on the CVP graph where the sales, fixed costs, and variable costs' lines all intersect. This is a key concept because it shows management that the revenue from a project will be able to cover all the costs associated with it. Using a variation of the CVP, management can calculate the break-even point in profits, units, and even dollars.

BREAK EVEN ANALYSIS

Profit

Business organisations have profit as their primary goal and various management decisions (such as product pricing, production levels, expansion, diversification, etc.) are aimed at subserving this goal.

Profit, simplistically stated, is the difference between sales realisations and the costs incurred. The profit and loss statements of organisations give details of sales realisations as well as costs.
In other words, one could say, Profit = Sales - Costs
Profit could, therefore, be increased by increasing sales and by taking steps to see that costs do not increase, at least correspondingly.

Profit and Loss Account:
Profit, however, is not directly related to the level of activity or volume of sales of an organisation. Stated differently, profit does not necessarily increase or decrease directly in proportion to the volume of sales. This is because costs consist of various components, all of which do not vary proportionately with sales. There are some components of costs, which vary proportionately, but there are others, which are not dependent on the volume.

Types of costs
Broadly speaking, costs could be divided into two categories -fixed costs arid variable costs.

Fixed Costs
Fixed Costs are those costs which tend to remain the same irrespective of the volume of output. In other words, they do not vary when output changes. Factory rent, Managing Director's salary etc. are all examples of Fixed Costs.
Fixed Costs are, however, not truly fixed at all times but only over a comparatively shorter time period e.g. a quarter or even over a year. Over a very long period, fixed costs may undergo some changes.
Similarly fixed costs remain the same within a well defined range of output, but once a new range is reached the costs change. For example one foreman may be adequate for one shift, but once the organisation decides to operate two shifts, one more foreman may have to be employed and the fixed costs, representing the salary of foremen, would double. Fixed costs are, therefore, referred to as "stepped costs" also in such cases.

Variable casts
Variable costs are those costs which do vary in relation to the output. As a result, when output increases, variable costs go up proportionately. Raw materials consumed, stores and spares consumed etc., are examples of variable costs.

Semi-variable Casts:
There are some costs which are called semi-variable costs or semi-fixed costs. These are hybrid costs made up of a fixed element and a fully variable element. There is a tendency for the costs to vary with output, but the variation is irregular.
If costs could be segregated into fixed and variable costs, it becomes easier to study the behaviour of profit in relation to volume. For a very broad understanding and use of contribution analysis, one could divide all costs into two categories only viz, fixed costs and variable costs. In

other words, semi-fixed/semi variable costs could be treated as fixed. If such broad analysis should indicate the need for deeper probe into the profitplans, an in-depth study could be made by breaking up such semi-fixed/semi-variable costs into fixed and variable components.

Contribution

The difference between the sales price and the variable costs is called Contribution. The "contribution" is the term used to describe this relationship between variable costs and selling price.

Contribution = Sales - Variable Costs

In view of the fact that variable costs by definition are directly related to sales, the contribution will increase when sales increase and contribution will go down, when sales go down. The two important features of contribution are:

a) Contribution increases directly in proportion to the volume i.e., there is a linear relationship between the two and

b) if nothing is produced and sold, the variable cost is nil and the loss incurred is equal to fixed costs.

Importance of contribution in profit planning:

As stated earlier,

Profit = Sales - Costs

In view of the fact that we have now been able to identify that costs consist of two components viz., fixed and variable, the above statement could be restated as under:

Profit = Sales - (Variable Costs + Fixed Costs)

or Profit =(Sales - Variable Costs)- Fixed Costs Where,

sales – variable costs = contribution.

or Profit = Contribution - Fixed Costs

In view of the fact that contribution increases directly in relation to sales and as fixed costs by definition remain the same, profit could be maximised by increasing contribution. In other words, organisations should have maximisation of contribution as one of their major goals and various management decisions must subserve this goal.

Profit Volume Ratio

The ratio of contribution to sales turnover is called profit volume ratio (or P/ V ratio). The P/ V ratio is a measure of the rate of contribution made by each rupee of sale out of which fixed expenses must be met.

The profit volume ratio thus becomes an important factor in taking various management decisions. If there are two alternatives open to the management as a result of which two profit/volume ratios would emerge, the management would prima facie choose the alternative which gives a higher profit volume ratio.

RISK MANAGEMENT

Banks mobilize and deploy funds and in this process, they get exposed to different kinds of risks. Risk can be defined as the potential loss from a banking t-ansaction (in the form of a loan, or investment in securities or any other kind of transaction undertaken by the bank for itself or for customers), which a bank can suffer due to variety of reasons.

Process of credit risk management

The process of risk management, a broadly comprise the following functions:

Risk identification,
Risk measurement or quantification,
Risk control or risk mitigation,
Monitoring and reviewing.

Risk in Banking Business

Banks undertake different types of business that involves a large no. of activities which can be subgrouped in 8 categories as per Basel II guidelines. To understand the risk associated with these, the business lines can be regrouped as (1) Banking Book (2) Trading book (trading portfolio) and (3) Off balance sheet exposures.

Risk to the Banking book: The banking book, for the purpose of risk management, includes all types of loans, deposits & borrowings due to commercial and retail banking transactions.

The banking book is exposed to (a) liquidity risk, (b) interest rate risk, (c) operational risk and (d)credit risk. Risk to the Trading book: The trading book, for the purpose of risk management, includes marketable assets i.e. investments both for SLR and non-SLR purpose in govt. securities and other securities. These are generally held as fixed income securities, equities, foreign exchange assets etc.

The trading book is exposed tomarket risk including liquidation risk, credit risk and default risk.

Different Types of Banking Risk

The banks are exposed to (1) Liquidity risk (2) Interest rate risk (3)Market risk (4) Credit risk (default risk) and (5) Operational risk. These risks can be further broken up in various other types of risk as under:

Types of Risks

1. Liquidity Risk

It is inability to obtain funds at reasonable rates for meeting Cash flow obligations. Liquidity Risk is of following types:

Funding Risk: It is risk of unanticipated withdrawals and non-renewal of FDs which are raw material for Fund based facilities.

Time Risk: It is risk of non-receipt of expected inflows from loans in time due to high rate NPAs which will create liquidity crisis.

Call Risk: It is risk of crystallization of contingent liabilities.

2. Interest Rate Risk

Risk of loss due to adverse movement of interest rates. Interest rate risk is of following types:

Gap or Mismatch Risk: The risk of Gap between maturities of Assets and Liabilities. Sometimes, Long term loans are funded by short term deposits. After maturity of deposits, these liabilities are get repriced and Gap of Interest rates between Assets and Liabilities may become narrowed thereby reduction of profits.

Basis Risks: Change of Interest rates on Assets and Liabilities may change in different magnitudes thus creating variation in Net Interest Income.

Yield Curve Risk: Yield is Internal Rate of Return on Securities. Higher Interest Rate scenario will reduce Yield and thereby reduction in the value of assets.
Adverse movement of yield will certainly affect NII (Net Interest Income).
Embedded Option Risk : Adverse movement of Interest Rate may result into prepayment of CC/DL and TL. It may also result into pre-mature withdrawal of TDs/RDs. This will also result into reduced NII. This is called Embedded Risk.
Re-investment Risk: It is uncertainty with regard to interest rate at which future cash flows could be re-invested.

3. Market Risk

Market Risk is Risk of Reduction in Mark-to-Market value of Trading portfolio i.e. equities, commodities and currencies etc. due to adverse market sensex. Market Risk comprises of:
- Price Risk occurs when assets are sold before maturity. Bond prices and Yield are inversely related.
- IRR affects the price of the instruments.
- Price of Other commodities like Gold etc,. is also affected by the market trends.
- Forex Risks are also Market Risks.
- Liquidity Risk or Settlement Risk is also present in the market.

4. Credit Risk or Default Risk

Credit Risk is the risk of default by a borrower to meet commitment as per agreed terms and conditions. There are two types of credit Risks:
Counter party Risk: This includes non-performance by the borrower due to his refusal or inability.
Country Risk : When non-performance of the borrower arises due to constrains or restrictions imposed by a country.

5. Operational Risk

Operation Risk is the risk of loss due to inadequate or Failed Internal procedures people and the system. The external factors like dacoity, floods, fire etc. may also cause operational loss. It includes Frauds Risk, Communication Risk, Documentation Risk, Regulatory Risk, Compliance Risk and legal risks but excludes strategic /reputation risks.
Two of these risks are frequently occurred.
Transaction Risk: Risk arising from fraud, failed business processes and inability to maintain Business Continuity.
Compliance Risk: Failure to comply with applicable laws, regulations, Code of Conduct may attract penalties and compensation.
Other Risks are:
1. Strategic Risk: Adverse Business Decisions, Lack of Responsiveness to business changes and no strategy to achieve business goals.
2. Reputation Risk ; Negative public opinions, Decline in Customer base and litigations etc.
3. Systemic Risks ; Single bank failure may cause collapse of whole Banking System and result into large scale failure of banks.

INDIAN FINANCIAL SYSTEM

HISTORY OF INDIAN BANKING

The first bank of limited liability managed by Indians was Oudh Commercial Bank founded in 1881. Punjab National Bank was established in 1894 .

Swadeshi movement, which began in 1906, encouraged the formation of a number of commercial banks. Banking crisis during 1913 -1917 and failure of 588 banks in various States during the decade ended 1949 underlined the need for regulating and controlling commercial banks. The Banking Companies Act was passed in February1949, which was subsequently amended to read as Banking Regulation Act, 1949.This Act provided the legal framework for regulation of the banking system by RBI. The largest bank - Imperial Bank of India - was taken over by the RBI in 1955 and rechristened as State Bank of India, followed by inclusion of its 7 Associate Banks in1959. At present SBI has five associate banks. With a view to bring commercial banks into the mainstream of economic development with definite social obligations and objectives, the Government issued an ordinance on 19 July 1969 acquiring ownership and control of 14 major banks in the country. Six more commercial banks were nationalised from 15 April 1980.

Meaning of Bank

Bank is a lawful organisation, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it.

Role of Banking

Banks provide funds for business as well as personal needs of individuals. They play a significant role in the economy of a nation. Let us know about the role of banking.

It encourages savings habit amongst people and thereby makes funds available for productive use.

It acts as an intermediary between people having surplus money and those requiring money for various business activities.

It facilitates business transactions through receipts and payments by cheques instead of currency.

It provides loans and advances to businessmen for short term and long-term purposes.

It also facilitates import-export transactions.

It helps in national development by providing credit to farmers, small-scale industries and self-employed people as well as to large business houses which lead to balanced economic development in the country.

It helps in raising the standard of living of people in general by providing loans for purchase of consumer durable goods, houses, automobiles, etc.

TYPES OF BANKS

There are various types of banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. On the basis of functions, the banking institutions in India may be divided into the following types:

1. Central Bank (RBI, in India)

Commercial Banks Public Sector Banks

Private Sector Banks

3. ForeignBanks, **Development Banks** (IFCI, SFCs)

4. Co-operative Banks

Primary Credit Societies Central Co-operative Banks, State Co-operative Banks

5. Specialised Banks (EXIM Bank, SIDBI, NABARD)

6. Central ank

A bank which is entrusted with the functions of guiding and regulating the banking system of a country is known as its Central bank. Such a bank does not deal with the general public. It acts essentially as Government's banker, maintain deposit accounts of all other banks and advances money to other banks, when needed. The Central Bank provides guidance to other banks whenever they face any problem. It is therefore known as the banker's bank. The Reserve Bank of India is the central bank of our country. The Central Bank maintains record of Government revenue and expenditure under various heads. It also advises the Government on monetary and credit policies and decides on the interest rates for bank deposits and bank loans. In addition, foreign exchange rates are also determined by the central bank. Another important function of the Central Bank is the issuance of currency notes, regulating their circulation in the country by different methods. No other bank than the Central Bank can issue currency.

COMMERCIAL BANKS

Commercial Banks are banking institutions that accept deposits and grant short-term loans and advances to their customers. In addition to giving short-term loans, commercial banks also give medium-term and longterm loan to business enterprises. Now-a-days some of the commercial banks are also providing housing loan on a long-term basis to individuals. There are also many other functions of commercial banks, which are discussed later in this lesson.

Types of Commercial banks:

Commercial banks are of three types i.e., Public sector banks, Private sector banks and Foreign banks.

Public Sector Banks:

These are banks where majority stake is held by the Government of India or Reserve Bank of India. Examples of public sector banks are: State Bank of India, Corporation Bank, Bank of Baroda and Dena Bank, etc.

Private Sectors Banks:

In case of private sector banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. For example: The ICICI Bank, Axis Bank, Federal Bank etc.

Foreign : These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Some of the foreign banks operating in our country are Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard & Chartered Bank, Grindlay‟s Bank, etc. The number of foreign banks operating in our country has increased since the financial sector reforms of 1991. According to a report by RBI there are 47 Foreign Banks branches in India as on March 31, 2013.

Development Banks

Business often requires medium and long-term capital for purchase of machinery and equipment, for using latest technology, or for expansion and modernization. Such financial assistance is provided by Development Banks. They also undertake other development measures like subscribing to the shares and debentures issued by companies, in case of under subscription of the issue by the public. Industrial Finance Corporation of India (IFCI) and State Financial Corporations (SFCs) are examples of development banks in India.

Co-operative Banks

People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. **When a co-operative society engages itself in banking business it is called a Co-operative Bank**. The society has to obtain a licence from the Reserve Bank of India before starting banking business. Any co-operative bank as a society has to function under the overall supervision of the Registrar, Co-operative Societies of the State. As regards banking business, the society must follow the guidelines set issued by the ReserveBank of India.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with Providing refinance to lending institutions in rural areas Bringing about or promoting institutional development and Evaluating, monitoring and inspecting the client banks Besides this pivotal role, NABARD also Acts as a coordinator in the operations of rural credit institutions Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development Acts as regulator for cooperative banks and RRBs

Some of the milestones in NABARD's activities are: District Rural Industries Project (DRIP) has generated employment for 23.34 lakh persons with 10.95 lakh units in 105 districts. It was setup with an initial capital of Rs. 100 crore, which is in henced to 4,000 crore in 2013 fully subscribed by the Government of India and

FUNCTIONS OF COMMERCIAL BANKS

The functions of commercial banks are of two types.

A) Primary functions; and**(B)** Secondary functions. **Primary functions :** The primary functions of a commercial bank includes: Accepting deposits; and Granting loans and advances.

ACCEPTING DEPOSITS : The most important activity of a commercial bank is to mobilise deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks.

Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the

bank grow alongwith the interest earned. If the rate of interest is higher, public feels motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

Grant of loans and advances : The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies according to the purpose and period of loan and also the mode of repayment.

Loans

A loan is granted for a specific time period. Generally commercial banks provide short-term loans. But term loans, i.e., loans for more than a year may also be granted. The borrower may be given the entire amount in lump sum or in instalments. Loans are generally granted against the security of certain assets.

A loan is normally repaid in instalments. However, it may also be repaid in lump sum.

Adv anc e s

An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that

loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day-to-day requirements of business. The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

Cash Credi t

Cash credit is an arrangement whereby the bank allows the borrower to draw amount upto a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he requires. Interest is charged on the amount actually withdrawn. Cash Credit is granted as per terms and conditions agreed with the customers.

Overdraf t

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit may be allowed either on the security of assets, or on personal security, or both.

Discounting of Bills : Banks provide short-term finance by discounting bills, that is, making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonoured on the due date, the bank can recover the amount from the customer.

Secondary functions

In addition to the primary functions of accepting deposits and lending money, banks perform a number of other functions, which are called secondary functions. These are as follows:

-Issuing letters of credit, travellers cheque, etc.

-Undertaking safe custody of valuables, important documents and securities by providing safe deposit vaults

or lockers.

-Providing customers with facilities of foreign exchange dealings.

-Transferring money from one account to another; and from one branch to another branch of the bank through cheque, pay order and demand draft.

-Standing guarantee on behalf of its customers, for making payment for purchase of goods, machinery, vehicles etc.

-Collecting and supplying business information.

Providing reports on the credit worthiness of customers.

NON BANKING FINANCIAL COMPANIES (NBFC)

A Non-Banking Financial Company (NBFC) is a company a) registered under the Companies Act. 1956, b) its principal business is lending, investments in various types of shares/stocks/bonds/debentures/securities, leasing, hire-purchase, insurance business, chit business, and c) its principal business is receiving deposits under any scheme or arrangement in one lump sum or in installments. However, a Non-Banking Financial Company does not include any institution whose principal business is agricultural activity, industrial activity, trading activity or sale/purchase/construction of immovable property. (Section 45 I (c) of the RBI Act, 1934) . One key aspect to be kept in view is that the financial activity of loans/advances as stated in 45 I (c) , should be for activity other than its own. In the absence of this provision, all companies would have been NBFCs. NBFCs whose asset size is of Rs.100 cr or more as per last audited balance sheet are considered as systemically important NBFCs. The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability in our country.

The Reserve Bank of India regulates and supervises Non-Banking Financial Companies which are into the business of (i) lending (ii) acquisition of shares, stocks, bonds, etc., or (iii) financial leasing or hire purchase.

The Reserve Bank also regulates companies whose principal business is to accept deposits. (Section 45I (c)
of the RBI Act, 1934)

RESERVE BANK OF INDIA

The Reserve Bank has been given the powers under the RBI Act 1934 to register, lay down policy, issue directions, inspect, regulate, supervise and exercise surveillance over NBFCs that meet the 50-50 criteria of principal business. The Reserve Bank can penalize NBFCs for violating the provisions of the RBI Act or the directions or orders issued by RBI under RBI Act. The penal action can also result in RBI cancelling the Certificate of Registration issued to the NBFC, or prohibiting them from accepting deposits and alienating
their assets or filing a winding up petition.

Rationale behind the regulation: - The financial system deals with the people's money and it is necessary to generate, maintain and promote the confidence and the trust of the people in the banking system at all times. It is also necessary to prevent and curb all possibilities of misuse and even the imprudence by any of the players of the financial system. Therefore the rationales are:

-To generate, maintain and promote confidence and trust of the people in the financial / banking system.

-To protect the investor's interests by adequate/timely disclosure by the institutions and access to information by the investors.

-To ensure that the financial markets are both fair and efficient.

-To ensure that the participants measure up to the rules of the marketplace.

Constitution of RBI: - The RBI was constituted under Reserve Bank of India Act, 1934. It is a state owned institution under the Reserve Bank (Transfer of Public Ownership) of India Act, 1948. The Act empowers the Union Govt., in consultation with the Governor of RBI, to issue such directions to RBI as considered
necessary in the public interest. The RBI has a Governor and four Dy. Governors appointed by the Union Govt. The control of RBI is vested in the Central Board of Directors consisting of Governor, Dy. Governors and 15 Directors nominated by Union Govt. Banking system is regulated by the Central Banking Authority in all countries. In United Kingdom, where banking is not defined in any statute, the banking system is regulated by the Bank of England, which is the central banking authority there. In India the banking system is regulated by RBI in terms of the Reserve Bank of India Act, 1934 and Banking Regulation Act, 1949. In India, banking is defined in the Banking Regulation Act, 1949.

Main Objectives of RBI

To maintain monetary stability such that the business and economic life of the country can deliver the welfare gains of a mixed economy.

Tomaintain the financial stability and ensure sound financial institutions so that economic units can conduct their business with confidence.
To maintain stable payment systems, so that financial transactions can be safely and efficiently executed.
To ensure that credit allocation by the financial system broadly reflects the national economic priorities and social concerns.
To regulate the overall volume of money and credit in the economy to ensure a reasonable degree of price stability.
To promote the development of financial mdrkets and systems to enable itself to operate/regulate efficiently.
Main functions of RBI
1.Notes Issuance:-The RBI has the sole authority for the issuance of currency' notes (as per Sec 22 of RBI Act), putting them in to circulation withdrawing them or exchanging them. _RBI issues currency notes of denomination from Rs. 5 to Rs.1000 (can issue notes of Rs 5000 and RS.10000). The Rs.1 note and coins are issued by the Government of India and put into circulation by RBI. As a ,cover for the notes issue, RBI keeps a minimum value of gold Coin, bullion and foreign securities as a part of the total approved assets.
Government's Banker: - RBI acts, as the banker Central and. state Govts. i.e. It provides them services of deposits'; withdrawal of funds,_ making, payments and transfer of funds and management of public debt. Govt. deposits-are received free of interest and RBI does not receive any remuneration for-the routine banking business 'of the Govt. RBI :makes ways & means advances to central and state .Govts. Subject to certain & limits on the amount overdrafts with a view to contain the fiscal deficit as decided by Central Govt. RBI charges commission for managing public debt and interest on overdrafts.
Bankers' Bank: - RBI acts as,the Bankers' Bank:The scheduled banks (the commercial banks and State Co-op Banks) are required to keep stipulated reserves in cash and in approved securities as a certain percentage of their ID & ;II with RBI. The scheduled banks are banks which are listed in the second schedule of the RBI Act, 1934:RBI also changes-its 'Bank rate to regulate the cost of bank credit and its volume indirectly. It also acts as the lender of the- last resort for banks by rediscounting bills and refinance mechanism.
Bank's Supervision: - FromNov 1993, RBI's banking supervision function has been separated fromits traditional functions. The **Board of Financial Supervision (BFS)** was set up to oversee the Indian financial system(commercial banks, State Coop banks, All India Financial institutions (AIFIs) and NBFCs. The **RBI**Governor is its chairman and has a
full time vice-chairman and sixmembers. To develop a sound banking system, RBI's supervisory powers
To issue licenses for newbanks and newbranches for the existing banks.
To prescribe theminimumrequirements for the paid-up capital and reserves,maintenance of cash reserves and other liquid reserves.
-To inspect the working of the scheduled banks in India and abroad from all relevant angles and ensure their sound working.
-To conduct adhoc investigations into complaints, irregularities and frauds pertaining to the banks.
-To control appointments, reappointments, termination of Chairmen and CEOS of private banks.
-To approve or force amalgamation ormerger of two banks.

5. Development of the Financial System: - In addition to the regulatory and supervisory roles, **RBI** has development role also. RBI has created the following specialized financial institutions for development.

Industrial Finance:- IDBI- Industrial Development Bank of India-1964 & SIDBI- Small Industrial
DevelopmentBank of India-1989.

Agricultural Credit: - NABARD- National Bank for Agriculture and Rural Development-1981.

Export-Import finance: - Export-Import Bank of India-EXIM Bank-1981. Deposit and Credit Insurance: -
DICGC-Deposit Insurance & Credit Guarantee Corporation of India-1961.

6. Exchange Control:-It is the duty of RBI to maintain the stability of the external value of Indian Rupee. RBI performs the following tasks:

RBI exercises the foreign exchange 'control through its Exchange-Control departments. It authorizes the bank's specked branches and other dealers called Authorized Dealers (ADs) to deal in foreign exchange transaction.It regulates the foreign exchange market in terms of Foreign Exchange Management Act, **1999(FEMA).**

RBI manages the exchange rate between the Indian Rupee and the foreign currencies, by selling and buying FE to / from ADs. RBI manages the Foreign exchange reserves of the country and maintains the reserves in gold and foreign securities issued by foreign Govts. and International Financial Institutions.

7. Monetary Control: - The RBI:controls the money supply, volume of bank credit and the cost of bank credit (via Bank Rate). Moneys Supply change mechanism iauged to control inflationary or deflationary situations. The importantmacroeconomic policies areMdnataryControl byRBI; Fiscal Policy byMinistry of Finance and EXIMpolicy byMinitry of commerce.RBI:issues themonetary policy annually.

TOOLS OF MONETARY CONTROL

CRR-Cash Reserve Ratio: - CRR is the mandatory deposit (in Cash) held by the (schedule and unscheduled) banks with RBI. It is a certain/Percentage of their demand and Time Liabilities (DTL).

At present it is 4%. Demand liabilities are the deposits payable on demand (CA & SB) and time liabilities are time (fixed) deposits payable on the specified maturities. Non- maintenance of CRR will result in levy of penal interest by RBI. The decrease of CRR will result in pumping more liquidity in the banking system and
increasing will squeeze the liquidity. A cut in CRR enhances loanable funds with the banks and reduces their dependence on the call and term money markets. This will bring down the call rates. Likewise an increase in CRR reduces the lending operations and the call rate will tend to increase.

Statutory Liquidity Ratio-SLR: - It is a supplementary liquid reserve to be maintained by banks in addition to CRR. It is a certain percentage of Demand and Time liabilities of banks to be held in cash(exclusive of CRR requirements), Current Account balances with SBI & other PSBs, unencumbered approved securities mostly Govt. securities and gold. The present SLR is 21.50 %. (RBI can prescribe the SLRfrom0 to 40%).

SLR has three objectives

to restrict expansion of banks' credit .to increase banks' investment in approved securities.

to ensure the solvency of banks. Increasing SLR will have the effect of reduction in the lending capacity of banks by preempting a certain portion ofDTL forGovt. and other securities. It has therefore a deflationary impact on the economy, not only by reducing the loanable funds but also by increasing the lending rates in the face of increasing demand for bank credit. And vice-versa when SLRis reduced.

Bank Rate: - is the standard rate at which RBI rediscount BE or other eligible commercial papers from banks. Bank Rate is tool used by the RBI to affect the cost-and availability of refinance and to change the loanable funds of banks. Change in Bank Rate will affect •theinterest rates on loans and deposits in the banking

OpenMarketOperations (OMO):- are the sales or purchase ofGovt. securities byRBI in openmarket with a viewto increase or decrease the liquidity in the banking systemand thereby affect the loanable funds of banks. The pricing policy underOMOcan 'also alter the interest rate" "structure.

SelectiveCreditControl (SCC):-/RE31 stipulates certain restrictions on bank` advandes against specified sensitive commoditieswith the, objective of preventing speculative holding of essential commodities.

Regulatory Restrictions on Lending:- as per RBI directives or the Banking Regulation Act are:

No loans and advances can be granted against the security of pank's own shares.

No bank shallhold shares ina company As pledgee ormortgagee in excess' of the limit of 30%of the paid-up capital that company or 30%of theBank's paid-up capital + reserveswhichever is less. In the management of which MD or Manager the Bank is interested.

Banks' aggregate investment in shares,CDs, bonds etc.Should not exceed the limit of 40%of bank's net owned funds as on the previous year

Interest Rates

1. The policy is issued in April. Bi Monthly reviews is undertaken by RBI.
2. RBI has deregulated interest rate on term deposits of banks except FCNR (B) deposits.
3. Interest rate on Domestic Saving deposits has been deregulated. It is decided by banks.
4. In respect of advances, RBI has deregulated interest except DRI where it is 4% p.a.
5. Interest rate on deposits and advances are decided by Board of Directors of Banks or by Asset Liability Management Committee of the respective banks if powers delegated by Board.
6. Interest rates on advances are linked to Base of the Bank which varies from bank to bank.
7. RBI has asked banks to adopt concept of Base Rate instead of BPLR w.e.f. 1.7.2010.

BASE RATE

1. Base Rate concept has been introduced on the recommendations of Deepak Mohanty Committee.
2. Base Rate is the minimum rate below which banks will not lend to any borrower except in the case of (a) DRI advances (b) loans to banks' own employees (c) loans to banks' depositors against their own deposits. Base Rate shall include all those elements of the lending rates that are common across all categories of borrowers.
3. Base Rate shall include all those elements of the lending rates that are common across all categories of borrowers like (a)cost of funds (b) Unallocatable Overhead Cost (c) negative carry for SLR and CRR (d) Average Return on Net Worth
4. Obiective of Base Rate:(i) Enhancing transparency in lending rates of banks (ii) Enabling better assessment of transmission of monetary policy.
5. The Base Rate system will replace the BPLR system with effect from July 1, 2010.

Cash Reserve Ratio

1. Scheduled Commercial Banks are required to maintain CRR as per section 42(1) of RBI Act.
2. Banks are required to maintain certain percentage of Net Demand & Time Liabilities as cash with RBI.
3. As per amendment to sub-section (1) of Section 42 of the RBI Act 1934, with effect from 15t April 2007, RBI can prescribe the Cash Reserve Ratio (CRR) for Scheduled Commercial Banks without any floor rate or ceiling rate. Accordingly, there is no minimum or maximum CRR as per RBI Act and RBI will fix CRR.
4. Banks are required to maintain the prescribed CRR based on their NDTL as on the last Friday of the second preceding fortnight.
5. Banks are required to maintain daily average balance as fixed percentage of NDTL with RBI. The actual balance on any day of the fortnight (14 days) may be more or less than the required balance. However, cash balance with RBI on any day of the fortnight should not fall below 95% of the required average daily cash balance.
6. RBI will not pay any interest on the CRR balances with effect from 31"t March 2007.
7. If a bank fails to maintain 95% of required balance with RBI on any day of the fortnight, RBI will charge penal interest for that day at the rate of three per cent per annum above the bank rate on the amount of shortfall. If the shortfall continues on the next succeeding day/s, penal interest will be recovered at a rate of five per cent per annum above the bank rate.
8. Reserve Bank of India has prescribed statutory returns i.e. Form A return (for CRR) under Section 42
(2) of the RBI, Act, 1934 to be sent fortnightly.

Statutory Liquidity Ratio

1. Statutory Liquidity Ratio is maintained as per section 24 of Banking Regulation Act.
2. As per amendment to section 24 of the. Banking Regulation Act, the provision relating to maintenance of minimum SLR of 25% of NDTL has been withdrawn. Thus, RBI is free to fix minimum SLR. However, it can be increased to maximum of 40% of NDTL.
3. SLR can be kept in the form of (a) cash (b) gold valued at a price not exceeding the current market price, (c) unencumbered approved securities valued at a price as specified by the RBI from time to time (d) cash balance with other banks (e) excess cash balance with RBI. Cash management bill issued by Government of India will be treated as Government of India T Bills and accordingly shall be treated as SLR securities
4. For calculation of SLR, banks are required to send monthly statement on Form VIII under Section 24 of the BRAct.
5. If a bank fails to maintain SLR on any day of the fortnight, RBI will charge penal interest for that day at the rate of three per cent per annum above the bank rate on the amount of shortfall. If the shortfall continues on the next succeeding day/s, penal interest will be recovered at a rate of five per cent per annum above the bank rate.

Bank Loans to Micro and Small enterprises, both Manufacturing and Service are eligible to be classified under Priority Sector advance as per the following:
s

1.2.1 Direct Finance

1.2.1.1 Manufacturing Enterprises

The Micro and Small enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and regulation) Act, 1951 and notified by the Government from time to time. The manufacturing enterprises are defined in terms of investment in plant and machinery.

1.2.1.2. Loans for food and agro processing

Loans for food and agro processing will be classified under Micro and Small Enterprises, provided the units satisfy investments criteria prescribed for Micro and Small Enterprises, as provided in MSMED Act, 2006.

1.2.1.3 Service Enterprises

Bank loans up to Rs.5 crore per borrower / unit to Micro and Small Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

1.2.1.4 Export Credit

Export credit to MSE units (both manufacturing and services) for export of goods/services produced / rendered by them.

1.2.1.5 Khadi and Village Industries Sector (KVI)

All loans sanctioned to units in the KVI sector, irrespective of their size of operations and location and amount of original investment in plant and machinery. Such loans will be eligible for classification under the sub-target of 60 percent prescribed for micro enterprises within the micro and small enterprises segment under priority sector.

1.2.1.6. If the loans under General credit Card (GCC) are sanctioned to Micro and Small Enterprises, such loans should be classified under respective categories of Micro and Small Enterprises.

1.2.2 Indirect Finance

(i) Loans to persons involved in assisting the decentralised sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

(ii) Loans to cooperatives of producers in the decentralised sector viz. artisans village and cottage industries.

(iii) Loans sanctioned by banks to MFIs for on-lending to MSE sector as per the conditions specified in extant Master Circular on Priority Sector Lending.

1.3 Lending by banks to medium enterprises will **not** be included for the purpose of reckoning of advances under the priority sector.

1.4 Since the MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by same person / company for the purpose of classification as Micro, Small and Medium enterprises, the Gazette Notification No. S.O.2 (E) dated January 1, 1993 on clubbing of investments of two or more enterprises under the same ownership for the purpose of classification of industrial undertakings as SSI has been rescinded vide GOI Notification No. S.O. 563 (E) dated February 27, 2009.

TYPE OF CUSTOMERS

In this Chapter, for the convenience of study, types of Borrowers have been classified as under:

1. Individual
2. Partnership firm.

3. Hindu Undivided Family
4. Companies
5. Statutory Corporations
6. Trusts and Co-op Societies
7. Limited liability Patnership

One of the essential elements of a contract is "capacity of the parties to Contract".

The Bank while dealing with an individual should ensure that he is competent to enter into contract. An individual is not competent to contract and money lent to him cannot be recovered in the following circumstances:

a) If an individual is a minor:

A person is minor in the eyes of the law if has not attained the age of 18 years under Indian Majority Act and the age of 21 years, if he/she is a ward, under the Guardians and Wards Act. The money lent to a minor cannot be recovered, if the minor fails to repay. Exception to this is a contract with a minor for supply of necessaries to the minor. If a Bank lends money to a minor to meet expenses for purchasing necessaries of life, then bank can recover the money from the estate of the minor.

b) If an individual is not of sound mind:

According to the Contract Act, if a person is not of sound mind, then he is incompetent to enter into a contract. The Act says that a person at the time when he makes the contract, he is not capable of understanding it and of forming a rational judgment as to its effect upon his interests, will be considered that he is 'not of sound mind'. Hence, a contract would be invalid if it is proved that the time of entering into contract, the person was not in sound state of mind and could not understand what he was doing and could not understand the implications of entering into the contract.

c) Disqualified persons:

If a person is disqualified by the law in respect of his capacity to contract, then the contract entered into by such a person cannot be enforced. For example, a person might have been declared as insolvent under the Insolvency law. As long as the person continues to be undischarged insolvent, he cannot enter into contract.

2. PARTNERSHIP FIRM

'Partnership Firm' is another entity with which a Banker deals with in the course of his business. Partnership firm is governed by Indian Partnership Act 1932. A partnership is the relation between persons who have agreed to share the profits of a business, carried on by all or any of them acting for all. The relationship between partners is governed by partnership deed which can be written or unwritten.

Legal Position of a partnership:

A partnership is not distinct from its partners. The liability is joint and several. It means that they responsible for the act of the partnership firm in their capacity as partner as well as individual. The Indian Partnership Act 1932, provides for registration of the partnership and it is necessary that a Banker dealing with partnership firm, should verify as to whether the firm is registered or not. This would help him to know all the names of the partners and their relationship.

Authority of the Partners:

Section 19 of the Indian Partnership Act 1932 deals with the implied authority of a partner as an agent of the firm; and Section 22 deals with the mode of doing act to bind the firm. In view of

the provisions of Section 19 and 22, it should be noted that the act of a partner shall be binding on the firm if done:
a) in the usual business of the partnership;
b) in the usual way of the business; and
c) as a partner, i.e. on behalf of the firm and not solely on his own behalf.
Business of partnership firm: Mode of Operation

Rights and duties of the partners are determined by Partnership Deed. It provides for opening of bank accounts, borrowing powers, signing of cheques etc. Generally there may be a managing partner, who conducts business on behalf of other partners. While dealing with partnership firms it should be ensured that business is conducted as per partnership deed. If the Managing Partner does not have power to conduct certain transaction, then it should be ensured that consent of all partners is obtained.

Partnership firm and transaction in immovable property:
Section 19 of the Indian Partnership Act 1932 states that a partner cannot effect transfer of immovable property of the firm unless expressly authorized. While taking mortgage security of firm's immovable property, it should be ensured that the partner creating mortgage is expressly authorized to create mortgage. If the partner has no authority to create mortgage, then the banker should ensure that all the partners jointly create the mortgage.
Insolvency of the firm:
The banker on receiving notice of insolvency of the firm must immediately stop further transaction in the account irrespective of the fact that the account is in credit or debit. In case there is a credit balance, and the banker does not intend to set off the same against the dues in any other account, then the balance has to be handed over to the official receiver appointed by the Court or as directed by the Court. In case the account is in debit then the banker would be required to prove his debt before the Court and thereafter will be entitled to receive the same from the Official Receiver either in full or as per the dividend declared by the Court.
Insolvency of the Partner:
If at the time of insolvency of one of the partners the firms account is in credit then the same can be operated by the other partners, but the banker should obtain a fresh mandate and all previous cheques issued by the insolvent partner may be paid provided the other partners confirm the same. In case the account is in debit then further transactions in the account should be stopped.
Death of a partner:
In case of death, the principles, as stated* in the case of Insolvency of a partner, applies.
3. JOINT HINDU FAMILY (JHF) or HINDU UNDIVIDED FAMILY (HUF)
Joint Hindu Family is an entity of customary law among Hindus. This is governed by personal laws. In Bengal and other parts of erstwhile Bangal province, a Hindu Undivided Family is governed by Dayabhaga Law. In other parts of India, it is governed by Mitakshara Law.
Constitution of a Joint Hindu Family:

A Joint Hindu Family consists of male members descended lineally from a common male ancestor, together with their mothers, wives or widows and unmarried daughters bound together by fundamental principle of family relationship. The Joint Hindu Family is purely a creature of Law and cannot be created by act of parties. in so far as he manages the family property or business or looks after the family interests on behalf of the other members. The Managership of the JHF property comes to a person by birth and he does not owe his position as Manager on consent of the other co-parceners. The liability of the Karta is unlimited, whereas the liability of the co-parceners is limited to their shares in the Joint Family Estate.

Powers and Duties of the Manager

A Manager or Karta of a Joint Hindu Family has the following powers and duties:

Powers:

i. Right to possession and management of the joint family property.

ii. Right to income from the joint family property

iii. Right to represent the joint family

iv. Right to sell the joint family property for family purpose.

Duties:

v. Duty to run the family business and manage the property for the benefit of the family

vi. Duty to account the income from the joint family business and property.

Banker and his dealings with Joint Hindu Family

i. A banker dealing with JHF, should know the Karta of the family.

ii. Banker should ensure that Karta of the Joint Hindu Family deals with the Bank and borrows only for the benefit of Joint Family Business.

iii. The application to open the account must be signed by all the members and all adult members should be made jointly and severally liable for any borrowings or if the account gets overdrawn.

4. COMPANIES

A Company is another type of customer, which a banker deals with. A company is a juristic person created by law, having a perpetual succession and Common Seal distinct from its members. A Company depending upon its constitution is governed by various laws.

Basic Law Governing Company:

In India Companies are governed by Companies Act, 1956. All the companies are required to be registered under Companies Act, 1956.

The Business and objectives of a company are known by two important documents called Memorandum of Association and Article of Association. Therefore for the formation of company these documents are essential.

MEMORANDUM OF ASSOCIATION

The Memorandum of Association is charter of a company. Its purpose is to enable the shareholders, creditors and those dealing with the company to know its permitted range of business.

Memorandum of Association of a company contains the following details among others:

i. Name of the company

ii. Place of the business of the company

iii. Objects of the Company

iv. Name of the first Directors of the company

v. Share capital of the company

ARTICLES OF ASSOCIATION

Articles of Association are rules and regulations governing the internal management of the company. They define the powers of the officers of the company. Articles of Association are subordinate to Memorandum of Association and it contains the following details among other things:

i. Number of Directors of the company

ii. Procedure for conducting meeting of shareholders, Board of Directors etc.
iii. Procedure for transfer and transmission of shares.
iv. Borrowing powers of the company
v. Officers of the company and other details

Types of Companies:

A. Private Company:

According to Section 3 (1) (iii), a Private Company is one which contains following provisions in its Articles of Association:

i. Restriction on the right to transfer its shares.
ii. ii. Limitation on number of members to fifty excluding the people, who are employees and ex-employees of the company.
iii. iii. Prohibition as to participation by General public in its capital requirements.
iv. B. Public Company:
v. A Public Company is one which is not a Private Company i.e. a Public Company does not have any restrictions of the Private Company and its main features are as follows:
vi. i. Shares are freely transferable.
vii. ii. No restriction on number of members
viii. iii. Public at large can participate in its share capital.
ix. The Public Company can be further classified as
x. (a) Limited Liability Company – Liability is limited to the share in capital.
xi. (b) Unlimited Liability Company – Liability of the members is unlimited
xii. (c) Limited by Guarantee - liability is limited to the amount guaranteed
xiii. C. Government Company:
xiv. A company in which Central Government or State Government or both has not less than 51 % of share capital.
xv. D**. Statutory Companies:**
xvi. There are some companies established by an act of Parliament. These are called Statutory Corporations. For example, State Bank of India is established under State Bank of India Act, 1955. Nationalised Banks are established under Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.
xvii. E. Other Companies:
xviii. Besides the above, Companies Act, 1956 classifies companies on the basis of time, place of incorporation and nature of working into the following categories:
xix. i.Existing Company:A company existing already before the coming into force of Companies Act, 1956.
xx. ii.Foreign Company: A company registered in a Foreign Country.
xxi. iii.Holding Company: A company owning more than 50 % of share capital in another company or a company which can appoint majority of Directors in another company.
xxii. iv. Subsidiary Company: it can be seen that when there is a holding company the other company is called Subsidiary Company.
xxiii. **5. OTHER TYPE OF CUSTOMERS**
xxiv. (i) Clubs, Societies, Schools:
xxv. These bodies are usually governed by Companies Act or co-operative Societies Act and function within the ambit of those laws. For example clubs can be registered either under the Companies Act, 1956 or under Societies Registration Act or Co-

operative Societies Act. In the case of lending to these bodies a Banker should study the bye-laws, rules and regulations applicable to them and ascertain the legality of lending to them.

xxvi. (ii) Trusts:

These are governed by Indian Trusts Act, 1882, if they are Private Trusts and if they are public trust, they are governed by Public Trusts Act or Religious and Charitable Endowments Act, if they are Trusts of Hindus and in the case of Muslims they are governed by Wakf Act.

A Banker dealing with Trusts should acquaint himself with the respective laws applicable to them and shall ensure that his lending is within the ambit of those laws.

(iii) Trustee:

The Trusts are managed by Trustees. The powers and duties of the Trustees are either provided in Trust deed or regulated by the respective laws applicable to such Trusts. For example in the case of Public Trusts, Charity Commissioners, or Commissioner of Endowments appointed by Government has power to supervise the activities of the Trusts. The Trustee of Muslim Wakf is called Mutawali and his conduct and function is regulated by Wakf Board. Therefore a Banker dealing with a Trust should ensure that all the permissions required for taking a loan is obtained from the respective Government authorities.

7. Limited Liability Partnership :

Limited Liability Partnership (LLP) is a new corporate structure that combines the flexibility of a partnership and the advantages of limited liability of a company at a low compliance cost. In other words, it is an alternative corporate business vehicle that provides the benefits of limited liability of a company, but allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm.

Owing to flexibility in its structure and operation, it would be useful for small and medium enterprises, in general, and for the enterprises in services sector, in particular. Internationally, LLPs are the preferred vehicle of business, particularly for service industry or for activities involving professionals.

ABBREVATIONS

ABC Activity Based Costing
ADB Asian Development Bank
BC Banking Correspondent
BF Banking Facilitator
CAR Capital Adequacy Ratio

CAGR Compounded Annual Growth Rate
CAP Country Assistance Plan
CB Capacity Building
CBO Community based Organisation
CFSF Credit and Financial Services Fund
CGAP Consultative Group to Assist the Poor
CIDA Canadian International Development Agency
CIF Community Investment Fund
CM Computer Munshi
CMF Centre for Micro Finance
CMS Computer Munshi System
DFID Department for International Development
DRDA District Rural Development Authority
DRI Differential Rate of Interest
FLDG First Loss Deficiency Guarantee
FWWB Friends of Women's World Banking
GA Group Accountant
GLP Gross Loan Portfolio
GRT Group Recognition test
IFAD International Fund for Agricultural Development
IFMR Institute for Financial Management and Research
IIMB Indian Institute of Management Bangalore
IRDP Integrated Rural Development Programme
JLG Joint Liability Group
JSBY Jan Shree Bima Yojana
LAB Local Area Bank
LIC Life Insurance Corporation of India
LSS Light and Shades Study
MACS Mutually Aided Cooperative Society
MCFI Micro Credit Foundation of India
M-CRIL Micro Credit Ratings International Limited
MDC Microfinance Development Council
MFDEF Microfinance Development & Equity Fund
MFI Microfinance Institution
MIS Management Information Systems
MIX Microfinance Information eXchange
MSDF Michael and Susan Dell Foundation
MTO Money Transfer Operators
NABARD National Bank for Agriculture and Rural Development
NBFC Non-Banking Finance Company
NGO Non Governmental Organization
ODA Overseas Development Assistance
OSS Operational Self Sufficiency
PACS Primary Agricultural Cooperative Societies
PAR Portfolio At Risk
PKSF Palli Karma Sahayak Foundation

PLR Prime Lending Rate
PS Priority Sector
RBI Reserve Bank of India
RGVN Rashtriya Gramin Vikas Nidhi
RMK Rashtriya Mahila Kosh
RMTS Regular Monthly Transactions Statement
RoA Return on Assets
RRB Regional Rural bank
SBS Side by Side Study
SBLP SHG Bank Linkage Program
SDC Swiss Agency for Development Cooperation
SEWA Self-Employed Women's Association
SFMC SIDBI Foundation for Microcredit
SGSY Swarnajayanti Gram Swarozgar Yojana
SHG Self Help Group
SHPA Self Help Promotion Agency
SHPI Self Help Promoting Institution
SIDBI Small Industries Development Bank of India
TA Technical Assistance
TCB Training and Capacity Building
UNDP United Nations Development Program
USAID United States Agency for International Development
VCF Venture Capital Fund
VO Village Organization
VWS Village Welfare Society

Micro finance MCQs

1. **Loans to poor people by banks have many limitations including lack of security and high operating cost. So to help them which type of finance system developed ?**
(a) Ponzi schemes
(b) Micro Finance System***
(c) Money Laundering Schemes
(d) Money tampering finance

2. **The following statements are related to Micro Finance System. Locate the wrong option ?**
(a) It provides micro credit having scope for small savings and remittance of funds
(b) It based on the principle of livelihood creation
(c) The livelihood mission means engaging in activities in a routine fashion to generate cash or non-cash income
(d) None**

3. Who introduced the concept of Micro Finance in Bangladesh in the form of the "Grameen Bank"? He is the Nobel laureate known by many as the "father of micro finance systems".
(a) C. D. Deshmukh
(b) Amartya Sen
(c) Muhammad Yunus***
(d) Sheik Haseena

3. **The beneficiaries of Micro finance business are _____________**
(a) Land Less labour
(b) Marginal farmers
(c) Vendors in the small markets
(d) All the above***
4. **The beneficiaries of Micro finance business are _____________**
(a) Land Less labour
(b) Marginal farmers
(c) Vendors in the small markets
(d) All the above**
5. **The Micro Finance Institutions (MFI) differ from one another in terms of**
(a) Product offering
(b) Loan repayment Structure
(c) Product offerings
(d) All of these***

6. **One of the delivery channel for Micro Finance is SHG model. SHG means ?**
(a) Soar Help Group
(b) Sake Help Group
(c) Self Hope Group
(d) Self Help Group**

7. **Indian Micro Finance Institutes (MFI) usually adopt the group-based lending models, which are of two types. SHG model and JLG model. SHG means Self Help Group and JLG means ?**
(a) Joint Liability Game
(b) Josh Liability Group
(c) Joint Loan Group
(d) Joint Liability Group***

8. **To control high rate interest rates, coercive collections and illegal insurance practices by the Micro Finance Institutes, Andhra Pradesh Government passed Andhra Pradesh Microfinance Institutions (Regulations of Money Lending) Act in ?**
(a) 2014
(b) 2013
(c) 2005
(d) 2011**

9. **In the Not-For-Profit Micro Finance Institutes, which among the following are included ?**
(a) Societies
(b) Public Trusts
(c) Non-Profit Companies
(d) All of these***

10. **Co-operatives registered under state or National Acts and MACs come under Mutual benefit MFIs. MACS means ?**
(a) Moral-Aided Co-Operative Societies

(b) Mint-Aided Co-Operative Societies
(c) Mutually-Aided Co-Operative Societies**
(d) Mutually-Aided Co-Operative Societies

11. **Non-banking financial companies, producer companies and LAB come under the category of For-Profit-MFIs. LAB means ?**
(a) Loan Area Banks**
(b) Legal Area Banks
(c) Local Axis Banks
(d) Local Area Banks

12. **SKS Micro-finance Ltd, the only listed micro lender in the country founded by ___________**
(a) Sudipa Sen
(b) M. B. N. Rao
(c) Kunal Ghosh
(d) Vikram Akula**

13. **Who launched an 'India Micro-finance Platform', a portal on micro-finance activities across the country, with the assistance of World bank funds on 28th June 2013 ?**
(a) SBI
(b) ICICI
(c) SIDBI**
(d) Exim Bank

14. **SIDBI related statements are given. Pick the wrong statement.**
(a) SIDBI means Small Industries Development Bank of India
(b) It was established on 2nd April 1990
(c) It is the principal financial institution for the promotion, financing and development of industry in the small scale sector
(d) Its head office is in Nagpur**

15. Which committee has recommended creation of a separate category of NBFCs operating in the microfinance sector to be designated as NBFC-MFIs (Non-Banking Finance Company - Micro Finance Institutes) ?
(a) C. Ranga Rajan
(b) Chandra Sekhar
(c) Y. H. Malegam***
(d) Tarapore
16.Recommendations of Malegam committee on Micro Finance Sector do not include ________
1. MFI should not charge more than 24% of its disbursed loans
2. Processing fee on the loan amount must not be more than 1%
3. Margin of interest to be not more than 20 per cent***
4. MFIs should lend to an individual borrower only as a member of a JLG and should have the responsibility of ensuring that the borrower is not a member of another JLG
5. Bank advantages to MFIs should continue to enjoy 'priority sector lending status'.

17.Which committee has recommended creation of a separate category of NBFCs operating in the microfinance sector to be designated as NBFC-MFIs (Non-Banking Finance Company - Micro Finance Institutes) ?

1. C. Ranga Rajan
2. Chandra Sekhar
3. Y. H. Malegam**
4. Tarapore
5. R. K. Sundaram

18. SIDBI related statements are given. Pick the wrong statement.

1. SIDBI means Small Industries Development Bank of India
2. It was established on 2nd April 1990
3. It is the principal financial institution for the promotion, financing and development of industry in the small scale sector
4. its head office is in Nagpur***
5. None

19. Who launched an 'India Micro-finance Platform', aportal on micro-finance activities across the country, with the assistance of World bank funds on 28thJune 2013 ?

1. SBI
2. ICICI
3. SIDBI***
4. Exim Bank
5. NABARD

20 . The beneficiaries of Micro finance business are_____________

1. Land Less labour
2. Marginal farmers
3. Vendors in the small markets
4. Hawkers
5. All the above**

Micro finance Recollected

Q1.C.Rangrajan committee on microfinance
Q2. Breath length and depth meaning.
Q3. Difference between poverty lending approach and financial system approach.
Q4. Microfinance focus on poorest of the poor.
Q5. Nabard and it's role.
Q6. Nationalization of banks and it's purpose.
Q7.IRDP programm substitute the SJGSY program.
Q8.what is facilitater and it's role.
Q9.what is GRT group recognition test and it's purpose.
Q10.one question on Money lenders.
Q11.break even analysis and CPV analysis 3 questions.
Q12.what is microcredit.
Q13.what is microfinance.
Q14. What is sustainability.
Q15 what is BRI bank Ryat Indonesia.
Q16 .what is unit diseas.
Q17.chikola group of Kenya is example of which model.
Q18.Difference between SHG and JLG model
Q19 detailed question on grameen bank model.
Q20. What is SHG bank linkage model...
Q22. Assumptions of grameen bank model of Bangladesh.
Q23.diffrence between direct cost indirectcost setupcost and cost of fund.
Q24 .capital=assets-liability.
Q25.for NBFC model minimum networth requires rs.5 crore.
Q26.malegam committee and its recommendation.
Q27.qualifying assets and its significance
Q28.what is most accepted and widely usedmodel of microfinance in india.
Q29.what is ghostborrower or multiple lending.
Q30.details of BC model.
Q31.what is reckless lending.
Q32. Details of SHG2 model part2.
Q33. What is refinancing.
Q34. National rural livelihood mission.
Q35 .Swarn jayanti gramin Swarojgar yojna
Q 36.what is mutual fund.
Q37. What is merchant banking.

Q38.details of Revolving Fund.
Q39. Financial inclusion definition and scope.
Q40. What is kyc and it's purpose
Q41 .Illiterate person can open which type of exam.
Q42 .Difference between impact accessment and social performance.
Q43.what is social rating
Q44. What is minimalist and integrated approach.
Q45.what is micro Insurance.
Q46. Role of SEBI.
Q47.role of IRDA.
Q48. What is cash flow statement
Q49. What is flat rate of interest.
Q50. What is travel expanses.
Q51.what is operating expense Ratio.
Q52. What is asset depricitation.
Q53 what is accounting stanard 2
Q54. What is average case load.
Q55. What is Target group.
Q56. What is PAR.
Q57. What is market risk.
Q58. What is bank rate.
Q59.what is reprising risk.
Q60. What is riskmanagementa loop
Q61 what is schedule and nonshedule bank.
Q62. What is human risk.
Q63.what is operational risk.
Q64.what is merchant banker.
Q65. What is trading in stock exchange.
Q66.two questions on mutual fund.
Q67.three question on Break Even Analysis.
Q68. What is regulatory risk.
Q 69.what is Repayment rate.
Q70.trust and Trust feed and what NBFC banking Model and what is business Correspondent model (BC Model)...... these All are 70 Recollected Questions of microfinance held on 15 july 2018. best of luck to All ****BEST OF LUCK ****

Disclaimer

While every effort has been made by me to avoid errors or omissions in this publication, any error or discrepancy noted may be brought to my notice through e-mail to Srinivaskante4u@gmail.com which shall be taken care of in the subsequent editions. It is also suggested that to clarify any doubt colleagues should cross-check the facts, laws and contents of this publication with original Govt. / RBI / Manuals/Circulars/Notifications/Memo/Spl Comm. of our bank.