



**NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT
MICRO CREDIT INNOVATIONS DEPARTMENT (mCID)**

NB.mCID/ 1986 /SHG 1(POLICY) / 2006-07

Circular No. -19 / mCID -1/ 2007

26 February 2007

All Scheduled Commercial Banks (Including Regional Rural Banks)

Dear Sir,

Scheme for Capital/ Equity Support to Micro-Finance Institutions (MFIs) from MFDEF

Please refer to our Circular Ref. No.NB.MCID/ 257 / SHG – 1 (Policy) / 2006-07 dated 24 May 2006. The scheme has been modified and the revised version is enclosed. The above mentioned circular dated 24 May 2006 may be treated as withdrawn.

2. The overall objective of the Scheme is to promote linkages between banks and MFIs so that the poor can have better access to financial services. It is envisaged that the provision of capital /equity support will enable mFIs to leverage the access of commercial loans from banks.

3. The MFIs have been broadly grouped under two heads viz:- Micro Finance Organisation (mFOs) and Micro Finance Institution – Non Banking Financial Companies (mFI-NBFCs). The scheme envisages the provision of capital support to mFOs in the form of soft loan repayable over a period of seven years and equity support to mFI-NBFCs in the form of preference shares. Salient features of the scheme, eligibility norms for various institutions and format of application form are enclosed herewith.

4. We request you to give wide publicity to the scheme among MFIs.

Yours faithfully

(A. Ramanathan)
Chief General Manager
Encl. – as above

SCHEME FOR CAPITAL/ EQUITY SUPPORT TO MICRO FINANCE INSTITUTIONS (mFIs) OUT OF mICRO FINANCE DEVELOPMENT AND EQUITY FUND (mFDEF)

I. Backdrop:

The SHG-Bank Linkage Programme implemented through the formal banking system has not only gained momentum but has also taken rapid strides forward in recent years. As on 31 March 2006, 22.38 lakh SHGs comprising 3.3 crore poor rural families have been credit-linked by the banks. During 2005-06, bank lending to SHGs was of the order of Rs.4,499 crore. In order to further accelerate the availability of banking services in rural areas and leverage the existing Micro Finance Institutions, the Union Budget for 2005-06 contained the following measures as enunciated:

“At present, micro finance institutions (mFIs) obtain finance from banks according to guidelines issued by RBI. MFIs seek to provide small scale credit and other financial services to low income households and small informal businesses. Government intends to promote MFIs in a big way. The way forward, I believe, is to identify MFIs, classify and rate such institutions, and empower them to intermediate between the lending banks and the beneficiaries. Commercial banks may appoint MFIs as “banking correspondents” to provide transaction services on their behalf. As MFIs require infusion of new capital, I propose to re-designate the existing Rs.100 crore Micro Finance Development Fund as the “Micro Finance Development and Equity Fund”, and increase the corpus to Rs.200 crore. The fund will be managed by a Board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The Board will be asked to suggest suitable legislation, and I expect to introduce a draft Bill in the next fiscal year.”

II. Objective:

The overall objective of the Scheme is to promote linkages between banks and mFIs so that the poor can have better access to financial services by MFIs. The specific objectives of the Scheme are: to provide capital/equity support to micro Finance Institutions (mFIs) so as to enable them to leverage capital/equity for accessing commercial and other funds from banks, for providing financial services at an affordable cost to the poor, and to enable mFIs to achieve sustainability in their credit operations over a period of 3-5 years.

III. Definitions:

- (a) “Company” means a company as defined in section 3 of the Companies Act, 1956 (1 of 1956), and includes a foreign company within the meaning of section 591 of the Act and section 25 Company allowed to be registered without the addition of the words “Limited” or “Private Limited” at the end of its name;
- (b) “Cooperative society” means a society as defined in the Principal Act and includes cooperative societies registered under any State enactment for mutually aided or mutual benefit cooperatives or under the Multi State Cooperative Societies Act, 2002;

- (c) “Micro Finance Institution” means an entity whose principal object or principal business is the provision of micro finance services to eligible clients and comprises Micro Finance Organisations (mFOs) and MFI-NBFCs;
- (d) 'mFI-NBFC' means a Non-Banking Financial Company as defined in the Reserve Bank of India Act, 1934 and regulated by Reserve Bank of India and whose principal object or principal business is the provision of micro finance services;
- (e) “micro Finance Organisation (mFO)” means an entity registered in any of the following legal forms whose principal object or principal business is the provision of micro finance services and are not regulated by Reserve Bank of India:
- (i) a society registered under the Societies Registration Act, 1860;
 - (ii) a Public Trust registered under the Indian Trust Act, 1880 or any state enactment governing religious or charitable public trusts;
 - (iii) a company registered under Section 25 of the Companies Act, 1956 and specifically exempted from registration by the Reserve Bank;
 - (iv) a cooperative society registered under the provisions of the State Cooperative Societies Act or under the Mutually Aided or Mutual Benefit Cooperative Societies Act or Multi- State Cooperative Societies Act, 2002 or under any other law relating to Cooperative Societies in force in India;

IV. Salient Features of the Scheme:

1. Type of mFIs to be supported: MFOs and MFI–NBFCs are eligible for capital / equity support from the Micro Finance Development and Equity Fund (MFDEF).

2. Mode of Support: The mode of Capital/equity support to the MFIs is as under:

2.1 mFOs :

- a. Capital support would be provided in the form of soft loan. mFOs would be charged an interest of 3.5% on this loan but it would be subject to change from time to time.
- b. Loan tenure would be for a period of seven years inclusive of initial moratorium of two years. Loan is to be repaid in five annual installments.
- c. The maximum capital support available for mFOs under the scheme is linked to the outreach and / or amount of loan outstanding (as under) subject to a ceiling of Rs. 1.00 crore.

Outreach (No. of clients)	Loan amount Outstanding	Capital Support
2,500 - 10000	Less than Rs.2 Crore	Maximum Rs.25 lakh
10001 - 20000	Less than Rs.4 Crore	Maximum Rs.50 lakh
20001 - 30000	Less than Rs.6 Crore	Maximum Rs.75 lakh
30001 - 50000	Less than Rs.10 Crore	Maximum Rs.1.0 Crore

2.2. mFI-NBFCs :

- a. Equity Support would be provided in the form of Cumulative Redeemable Preference shares with coupon rate of 3.5% but the coupon rate would be subject to change from time to time

b. The equity support would be restricted upto 10 per cent of the total paid up capital of the entity with a ceiling of Rs. 2.00 crore.

3. Eligibility Norms

3.1 The broad eligibility norms for providing capital / equity support to mFIs would be as under:

a. mFI should be a registered body. The Memorandum of Association and bye-laws of the MFI should have explicit powers: to raise loans from banks and financial institutions, to offer security for loans raised from banks and financial institutions in such form as may be required by the lender, and to carry on micro finance activities.

b. mFI should have a track record of having undertaken micro finance operations at least for a minimum period of two years. It should have requisite experience in financing SHGs or individuals as its clients.

c. mFI should have been rated by an accredited rating agency under the NABARD's "Scheme for financial assistance to banks for rating of Micro Finance Institutions (mFIs)" circulated to Scheduled Commercial Banks including RRBs vide our Circular No. 73/ MCID 1 / 2006 dated 15 May 2006. Only those MFIs having obtained a rating above the cut-off level prescribed by NABARD would be considered eligible for capital / equity support.

d. mFI should have formulated a realistic business plan for the next 3 – 5 years demonstrating the financial sustainability of its operations.

e. mFI should be well governed and well managed. It should maintain a satisfactory and transparent accounting system, Management Information System and appropriate internal & external audit systems. It should be broadly conforming to the following parameters :

(1) mFI should not have on its Executive Committee or Board of Directors, any member who is currently holding a political office.

(2) mFI should have conducted at least one AGM within a period of six months from the close of accounting year.

(3) All elections in the mFI for various posts viz Chairman, Committee, Secretary etc. must have been held in the manner specified in the bye-laws and the provisions of law as applicable to them.

(4) It should have got its accounts audited by qualified Chartered Accountant during last two years and placed the audited financial statements before its General Body within a period of six months from the close of relevant accounting year.

(5) It should have filed annual returns before the statutory authorities in accordance with the provisions of relevant laws.

(6) It should maintain core capital including donated funds to a minimum extent of 20% of its loan assets during the previous year.

(7) It should have minimum repayment performance of 90% of loan assets in performance category as at the end of previous accounting year.

(8) It should not be charging usurious rate of interest on their loans to individual / SHGs. All charges like credit delivery charges, group nurturing charges, security deposit, margin money, loan monitoring fee etc. should be mentioned clearly on the loan application of the mFI.

(9) It should have made adequate provision against NPAs (on loan o/s.) on the following basis:

- For loans overdue between 90-120 days - 25%.
- For loans overdue between 120-180 days - 50%.
- For loans overdue for more than 180 days - 100%

3.2. Further, agency wise eligibility norms would be as follows :

A. mFOs :

(i) Non Govt. Organisations/ Co-operative Societies/ Trusts registered under any relevant State or Central enactment and Not-for Profit Companies registered under Section - 25 of the Companies Act 1956 :

1. It should have sufficient professional staff to deal with the issues relating to microFinance.
2. It should have approval of duly audited accounts in annual general meeting.
3. Board Meetings should have been conducted on regular basis in previous two years. The discussion at such meetings should have structured agenda and the minutes of the discussion should have been recorded properly.
4. It should not be accepting deposits from public in contravention to the RBI Act.

(ii) SHG Federations

1. Federations should have SHG or its members as its constituents. Only Primary Federations are eligible.
2. It should have its audited accounts duly approved in annual general meeting.
3. Board Meetings should have been conducted on regular basis in previous two years. The discussion at such meetings should have structured agenda and the minutes of the discussion should be recorded properly.
4. It should have mobilised the share capital in full from the members / SHGs and there should be no arrears in its collection.
5. It should have mobilised member savings at 90% of the pre-determined amount.

B. mFI-NBFCs

1. Board Meetings should have been conducted on regular basis in previous two years. The discussion at such meetings should have structured agenda and the minutes of the discussion should be recorded properly.
2. It should maintain a liquidity reserve in required percentage of the deposits mobilised from public in accordance with the prevailing law/ RBI Act.

4. Application for Capital/Equity Support:

Application for seeking capital / equity support should be submitted in the prescribed format (please see **Annexure I**) together with necessary enclosures, to the Officer-in -Charges of the

concerned Regional Offices of NABARD. mFI should get itself rated only after it receives intimation from NABARD.

Annexure I

APPLICATION FORMAT FOR SEEKING ASSISTANCE UNDER THE SCHEME FOR CAPITAL/EQUITY SUPPORT TO MICRO FINANCE INSTITUTIONS

A. Organisational Particulars

1. Name of the MFI:
2. Postal Address:
3. Phone & Fax No with STD Code:
4. E-mail:
5. Website:
6. Details of Registration/Incorporation (enclose copies):

Act/s under which registered	Date & Place of registration	Registration No	Validity Period

7. Whether Registered under Foreign Contribution (Regulation) Act, 1976 (FCRA)? Y/N. If yes indicate details of FCRA No. (enclose a copy)
8. Whether exemption obtained under 12A of IT Act 1961? Y/N. If yes indicate details (enclose a copy)
9. Whether Permanent Account Number (PAN) obtained from Competent Authority? Y/N. If yes indicate details. (enclose a copy)

B. Objectives

1. Main Objectives of the organisation as given in bye-laws, Memorandum of Association, Articles of Association, etc. ((enclose a copy each)
2. Whether there is a provision in the bye-laws to undertake borrowing/ lending activities

C. Management

- 1 Composition of Governing Body/ Board of Trustees/ Board of Directors

Name	Designation	Address	Occupation	Educational qualifications and experience	Details of association with any other institution

2. Details of meetings held in last two years

Year	No. of meetings held	Average attendance

3. Profile of Chief Executive Officer:

Name	Designation	Qualifications	Experience	Date of appointment	Details of association with any other institution

D. Staffing pattern

1. Please give details of organisational structure :

2. Staff details (give for last two years)

Year	Office Staff (No)	Supervisory Staff (No)	Field Staff (No.)	Total Staff (No)

3. Indicate the details of staff trained in micro finance during the last two years :

E. Details of infrastructure available:

Type of infrastructure	Description	Whether created through grant support	If yes, source of grant

F. Branch Network:

1. Area of Operation

2. Details of branch network

G. Microfinance Operations

(Enclose annual reports and audited accounts together with schedules for the last two years)

1. Whether savings services offered to the clients? Yes/No.

If no, how the clients are meeting their savings need -

2. Indicate the lending methodology

Self Help Group –
 Grameen group -
 Individual lending -
 Others (specify) –

3. Details of lending products:

Purpose	Loan Amount	Rate of Interest per annum	Flat rate or Reducing balance method	Repayment period	No. of Instalments

4. Indicate item-wise details of non-interest service charges levied on the clients:

5. Loan outreach achieved: (give details for last two years)

Year	Loan disbursed	No. of clients	Loan Outstanding	No.Of clients

6. Give details of loan recovery performance for the last two years:

Year	Loan recovery rate	Gross Loan Outstanding	Of which amount overdue for more than				Provision made against overdues	Loan written off
			30 days	1- 90 days	1-180 days	Over 180 days		

7. Whether micro insurance services are offered? Yes/No. If yes indicate the details including the agency arrangements, if any.

H. Business Plan for the next 3 to 5 Years:

1. Enclose a detailed business plan for the next 3 to 5 years. The detailed plan should, among others, cover actual (for 2 years) and projected (for 5 years) income & expenditure, balance sheet, cash flow statement and financial ratio analysis

2. Indicate the details of bank loan required for achieving the projected business plan

3. Furnish details of bank loan applied for

I. Indicate List of Enclosures attached

We hereby certify that the information furnished by us is correct. In the event of any of the information furnished by us is found to be false, we may be liable for any action under the law of the Land.

Place:

Date:

Seal

Signature
Name & Designation