

CHAPTER 7

National Policy for mF

7.1.1. The past two decades have witnessed several interesting innovations in mF. First, a large number of NGOs, primarily engaged in bringing about social and economic upliftment of their clientele, have recognised the importance of mF in this task and have actively engaged in promoting SHGs and many of them have also involved in linking the SHGs with banks. Over 33,000 SHGs in the rural areas have been financed by the banking system under the SHG-Bank Linkage Programme through the participation of over 200 commercial banks, regional rural banks and cooperative banks. In addition, more than 500 NGOs have taken initiatives in financial intermediation through other innovative models and their number is ever increasing. According to the plans of various apex level financial institutions like NABARD, SIDBI and RMK as also of some NGOs, NGO-mFIs and NGO-networks, over one-third of the entire rural poor population will be covered by mF through the SHG strategy and other delivery mechanisms in about next ten years.

7.1.2. Across the countries, it has been recognised that mF could be a useful tool in building up the capacities of the poor in management of sustainable self-employment activities besides providing them with other useful financial services for savings, housing, consumption credit and insurance. With increasing mechanisation in the primary and secondary sectors, traditional employment opportunities in these sectors are likely to grow at reduced pace. However, the increasing incomes of those gainfully engaged in these sectors are likely to give rise to newer avocations, especially in the tertiary sector. The Task Force has observed that already the share of services sector in GDP is on the rise. But the same at 46% is still low when compared to the corresponding share in other neighbouring countries (Pakistan 50%, Bangladesh 52%, and Sri Lanka 52%), not to speak of the same in respect of developed countries. It is in this context that financial services through mF from the institutional sector to the poor in the pre-microenterprise stage, with attendant linkages could help in creating employment opportunities in the service sector on a continuous basis. The evolution of a new sector in mF management for creating employment opportunities in rural areas could be an offshoot of mF initiatives.

7.2 Recognition of mF

7.2.1. A lot of issues, funds and personnel are at stake in these initiatives. There is a strong case for a formal recognition of mF, just like institutional credit, as a strategic tool for poverty alleviation and rural development, both at the policy and implementation level. The Task Force therefore recommends that GOI may consider making a suitable Policy Statement recognising the role of mF as a strategy for poverty alleviation on a sustainable and long term basis.

7.2.2. The Task Force considers that a good beginning has already been made in this direction by the GOI through the announcements made in the budget speeches of 1998-99 and 1999-2000 regarding SHG-Bank Linkage Programme. This endeavour may have to be carried further by recognising the other initiatives of the voluntary sector in providing mF services to the poor. The

entire gamut of mF activities encompassing SHGs and other types of informal groups as also the initiatives of mFIs in providing financial services to the poor even on individual basis need to be accepted as one of the several ways of banking with the poor.

7.3. Facilitating Policy Measures - National Policy on mF

7.3.1. The acceptance and recognition of mF as an essential tool for poverty alleviation envisages adoption of a National Policy on mF. The major components of the National Policy could be :

1. encouraging initiatives and participation of different types of institutions in mF,
2. bringing the microfinance activities, irrespective of the type of institutions within the regulation and supervision by competent authorities,
3. creating policy environment for closer linkages of the mF sector with the formal banking channels, and
4. making available equity, start-up capital and capacity building funds for the existing and prospective institutions engaged in mF including banks and various mF structures from institutional sources in the country.

7.3.2 The Task Force has endeavoured to address the above components of the National Policy and has recommended various measures for implementation. First, it has defined mF and mFI to remove ambiguity in the interpretation of the target clientele, nature, extent and coverage of services. A special mechanism of regulation and supervision is suggested to mainstream and oversee the activities of NGO-mFIs. Second, the mainstreaming of the mFI linkage with the banking system has been recommended to reduce the rigours of the mFIs in sourcing loanable funds from agencies other than the banking system. It also emphasises that all initiatives by apex agencies like NABARD, SIDBI, RMK, and other NGO networks and federations should invariably lead to meeting the credit needs of the mF sector from the banking system. Third, for close coordination between mF sector and other institutions as also monitoring and review of the development of the mF sector, effective use of the existing state and district fora such as SLBC and DCC and formation of a Standing Committee on mF under the aegis of RBI have been recommended. Fourth, the capacity building of mFIs and training of partner institutions including government officials has been identified as a major area of attention for the orderly development and growth of mF sector. Necessary financial resources will have to be found out for supporting the growing need and demand for building capacity and strengthening training efforts. Thus, in addition to provision of resources by the banks, development financial institutions (DFIs), and other agencies, budgetary support from central and state governments will be necessary. The Task Force has proposed for setting up of a Microfinance Development Fund in NABARD for the purpose which may be augmented by resources from government and partner institutions.

7.3.3 The Task Force has recognised the relevance of all three available channels of mF, viz. traditional advances of the banks under weaker section of the priority sector through individual advances and cooperatives, SHG linkage mode, and wholesaling of credit through mFIs and has recommended for their adoption as per the relative merits perceived by the institutions concerned.

7.3.4. Considering the vast multitude of the poor in India and the utility of mF in providing sustainable financial services to them, the relevance of a separate Microfinance Act was also considered by the Task Force. It is recommended that while this can be considered at a later stage, to start with, suitable amendments in the RBI Act recognising the mF operations of the NGO sector, as proposed in the earlier chapters, as well as some amendments in the IT Act, Societies Act, Trust Act, etc. would go a long way in accelerating the pace of the mF activities.

7.4 . Adequacy of the Financial Services

7.4.1. The importance of various components like savings, insurance and other services needs to be recognised within the ambit of mF. The Task Force has observed presence of certain imbalances in the relative extent of the different mF services provided by various mFIs. It is observed that insurance is one of the scarce services which is almost not available at all to the poor, due primarily to non-availability of suitable insurance products which meet their needs. Most of the present schemes, being operated by GOI through LIC and GIC, have not made much impact and headway among the poor due to the huge number of the target groups, insignificant nature of their assets, and, above all, lack of information about the schemes among the poor whose capacities to use such schemes is in any case abysmal. The Task Force suggests that the coverage of the social security fund set up by GOI, which presently covers 24 activity groups, could be further expanded to include all borrowers of mF through SHG linkage and mFI linkage irrespective of their occupational categorisation. To operationalise such social security schemes, mFIs and other mF service providers may be made the channeling agency for registering under such schemes. Such insurance products need to be offered at least to mF loanees at a nominal premium. The Personal Accident Insurance Scheme for poor families as also the Hut Insurance Scheme, at present operated by the GIC, may be modified, wherever necessary, to cover all the clients of mF schemes. Further, DICGC may also consider providing protection to the small savers under the schemes run by registered mFIs.

7.5. Resources for mF

7.5.1. The Task Force has examined the need for funds for various components of mF and has observed that in the nascent stage, mF is highly capital intensive. In particular, funds for capacity building within the mFIs, banks, associated agencies, and the client groups would be substantial in the initial years. Taking into account the present growth of the mF sector and the encouragement and attention given to it in the recent past, it may be reasonably expected that this sector will grow exponentially in the next 4-5 years. Accordingly, a road map of the expected level of operations and support mechanism that will be associated in the mF related activities through SHG and mFI linkages has been attempted to give a realistic perspective of where this sector would stand over the next 5 years. From a level of about Rs. 137 crore provided to the mF sector (cumulative as on 30 September 1998), it is estimated that over the next 5 years (end of 2003-04), the aggregate flow of loan and non-loan funds to this sector would be of the order of over Rs. 2,800 crore. These would broadly include loanable funds, resources for capacity building at mFIs, banks, SHPIs, and associated agencies as also at SHG and mF client levels.

7.5.2 Taking into account both the SHG-bank linkage approach and the mFI-bank linkages, the support for housing and also flow of funds from other institutions like NABARD, SIDBI, RMK, etc., the loanable funds during the first year (1999-2000) is expected to be of the order of Rs. 145 crore which will grow to Rs. 1,034 crore by the year 2003-04. In addition, support for capacity building and other services would need funding support of at least Rs. 15 crore during the current year (1999-2000) which would go up to Rs. 103 crore by 2003-04 as shown below.

Table 7.1

Funds Requirement for the mF Sector

(through SHG and mFI linkage)

(in crore Rupees)

Year	Loanable Funds	Capacity Building Support	Total
1999-2000	145	15	160
2000-2001	266	27	293
2001-2002	454	45	499
2002-2003	667	67	734
2003-2004	1,034	103	1,137
Total	2,566	257	2,823

The details of the estimates of the loan funds and the expendable grant funds are given in [Annexure-X](#) to the Report.

7.5.3. The above financial assistance would lead to a coverage of about 75 lakh poor families comprising 50 lakh families through SHG linkage programme, 15 lakh families through mFI linkage and about 10 lakh families under assistance from apex institutions. It has been assumed that support for housing would cover mainly those who have availed assistance under any of the linkage modes referred to above.

7.5.4. About 10,000 bank branches, 1,000 mFIs and 2,000 SHPIs (mainly NGOs) would be associating to reach the level of business of mF indicated above by 2003-04.

7.6. Capacity Building in mFIs and mF Providers

7.6.1. Capacity building at the mFI, NGO and bank levels would necessitate resources for training of personnel, infrastructure (including mobility), data building, etc. Costs towards social intermediation necessary for preparing the poor to become mF clients also needs to be included as part of capacity building which seems to range from as low as Rs. 300 to about Rs. 5,000 under different conditions for a group of about 20 persons. In addition to the above, mFIs would often require start-up capital, equity, as also support for meeting operational deficits in the initial years of operations. Even by very conservative estimates, an aggregate amount of about Rs. 257 crore will be required for capacity building and other support systems for the banks and mFIs upto 2003-04. The above capacity building support of Rs. 257 crore is expected to trigger ground-level investment of over Rs. 3,500 crore by means of loan funds and community /client savings.

7.6.2. The Task Force has observed that the banking sector would stand benefited through business with SHGs and mFIs, and should, in its own interest, encourage and nurture this sector by investing in training of its own staff in dealing with mFIs /SHGs and in providing technical support to the mFIs. Towards this end, the Task Force feels that a part of this cost should be met by the banking system as an investment in human capital which will yield rich dividends in the coming years, while the bulk of the cost will have to be supported through grant assistance by GOI, state governments, and apex development institutions or donor support in this sector.

7.7. Other Support Services

7.7.1. In addition to the above direct cost in developing mF sector, there will be some indirect cost such as supporting the costs of regulation, support services for mF, etc.

7.7.2. Regulation and Supervision Costs

7.7.2.1. As indicated in para 3.17 of Chapter 3, the cost of regulation and supervision of the mFIs would be about Rs. 2 crore per annum which would be required to be borne by the RBI.

7.7.3. Support Services for mF

7.7.3.1. Support services for mF clients will be required and best provided by the mFIs themselves to ensure efficacy of their own programmes. Such support services generally include training for livelihood activities, better farm management techniques, linkage services like input supply and marketing support. In providing various services to mF clients, the mFIs would be required to recover the cost of providing such services from the clientele.

7.8. Social Sector Interventions

7.8.1. The Task Force recognises that although mF is an important element of intervention for the poor, a variety of social sector interventions like literacy, health care, environmental upgradation, etc. are extremely necessary for overall human development of the poor, the mF clientele. There are a large number of programmes, both in the formal and informal sectors, that seek to address some of these issues. There is, however, not much coordination between them, and at times many of them may have avoidable duplication. The Task Force therefore emphasises the need to coordinate such efforts and network the participating organisations, be they in the formal or informal sectors, and bring in mF as an add-on component wherever possible. The costs of social sector interventions would vary depending upon the programmes of different agencies, and only the additional costs may actually have to be met.

7.9. Empowering Women through mF

7.9.1. Experience in implementing the SHG- Bank Linkage Programme and other mF sector interventions over the last decade has brought out the new role of women as good savers and judicious users of credit and other services for the overall development of the family. It can be said that the mF innovations world wide have been triggered by the strength shown by the poor women in managing financial resources and improving their economic well-being.

7.9.2. Despite initiatives from the government, NGOs and various other exclusive institutions, the burgeoning poverty, lack of earning assets and inadequate access to resources, coupled with many social factors leave a large area of concern in bringing all the poor women in the mainstream of mF agenda. While the Task Force strongly believes that involving larger proportion of women in the mF activities will not only increase the quality of the programmes but will also ensure implementation of such programmes in a cost effective manner, issues such as reforms which may give effective rights to women to own assets and properties, and minimal functional literacy and primary health care needs are to be addressed by the governments. These would increase the efficacy of financial services in both social and economic upliftment and empowerment. Keeping in view the present trend of supporting women focused programmes, the Task Force would like to stress that the National Policy on mF should continue to have special focus on poor women as hitherto in all mF programme activities.

7.10. Future Perspective and Vision

7.10.1 The approach and strategy for the implementation of the national policy on mF may have to recognise and appreciate the need for :

1. encouraging innovations in delivery mechanisms : Instead of adopting stereotypes, participating agencies may be encouraged to innovate as per local requirements and develop their own programmes,
2. ensuring functional autonomy of mFIs : NGOs and other agencies may be given freedom to decide the approach to be adopted in implementing programmes, and
3. consensus in client selection : Different ministries and departments of the GOI need to have consensus that the SHGs and other microfinance delivery initiatives include a major part of the social engineering process and hence are time consuming and are not likely to respond well to any target approach.

7.10.2 To conclude, the National Policy on mF, envisioned by the Task Force, seeks to achieve the following mission in the medium-term:

"Five years hence, we are looking for a process change leading to empowerment of 75 lakh poor households, and more particularly of the women from these households, through strong and viable people's structures like SHGs and mFIs which draw strength and support from the banking system with the message that banking with the poor is a profitable business opportunity for both the poor and the banks."

7.11. Highlights of the Chapter

1. *Microfinance is a useful tool in building the capacities of the poor in management of sustainable self-employment activities besides providing other financial services to them.*
2. *Evolution of mF management - a new sector for development initiatives.*
3. *Formal recognition of mF as a strategic tool for poverty alleviation and development. GOI to make a suitable policy statement.*
4. *National Policy on mF could be:*
 1. *encouraging initiatives and participation of different types of institutions in mF,*
 2. *bringing all mF activity within regulation and supervision by competent authorities,*
 3. *creating environment for closer linkages of the mF sector with banking channel and*
 4. *making available equity, start-up capital, capacity building funds for the mF sector from institutional sources in the country.*

v. All components of the National Policy addressed by the Task Force in its recommendations.

1. vi. Emphasis to be given on provision of all types of financial services, particularly insurance :

- Coverage of Social Security Fund of GOI to be expanded from the existing 24 activities to all categories of mF activities /borrowers.
- mFIs and mF service providers to be made channeling agencies for social security scheme of GOI.
- DICGC to work out scheme for protection of the small savers under mFIs

vii. Status of mF by 2003-04

- Estimated credit flow to the mF sector to reach a level of over Rs. 1,000 crore by 2003-04 leading to credit outstanding of Rs. 1,500 crore.
- To cover 75 lakh families.
- To involve 10,000 bank branches, 1,000 mFIs and 2,000 SHPIs.

viii. Aggregate capacity building support required to the tune of Rs. 257 crore by 2003-04.

- Banking sector to meet a part of the cost of promotion of SHGs as investment in human capital.
- Remaining part to come from grant assistance from governments and other agencies.
- Need for coordination among various participating institutions in providing social sector interventions to bring mF as "add-on" function, wherever possible.

ix. Empowerment of women through mF -

- Involvement of women in mF activities increases quality and cost effectiveness of the programme.
- Issues such as rights to own properties, minimal functional literacy and primary health care to be addressed by Government
- Focus on poor women in all microfinance programmes to be continued under National Policy.

x. The approach and strategy for the implementation of the national policy to,

- encourage innovations in delivery mechanism
- ensure functional autonomy of mFIs
- bring consensus in clients selection
- The Vision for mF in the medium term

"Five years hence, we are looking for a process change leading to empowerment of 75 lakh poor households, and more particularly of the women from these households, through strong and viable people's structures like SHGs and mFIs which draw strength and support from the banking

system with the message that banking with the poor is a profitable business opportunity for both the poor and the banks."