

## CHAPTER 6

### Support Mechanism For Institutions Providing Microfinance

6.1.1. As indicated earlier, microfinance is being extended to the poor by both mF providers and mFIs. Both provide loans under microfinance either directly to individuals or through groups and cooperatives. Many NGOs receive financial assistance in the form of grants and loans for implementing various welfare and livelihood programmes of the government and donor agencies. On their part, certain financial institutions also provide assistance to the NGOs and other mFIs for implementing various programmes including credit programmes. There is, however, no regular institutional mechanism for providing assistance to the mFIs for implementing such socially relevant empowerment and microfinance programmes. For banks and development financial institutions (DFIs) on the other hand, a support mechanism for their credit operations, including microfinance, exists which comprises an institutionalised system for capital infusion, refinance, training and other capacity building assistance from GOI, RBI, state governments and other national and international agencies.

6.1.2. The components of support mechanism for the mF providers and mFIs would vary depending upon the mode of microfinance. As regards support mechanism for banks' conventional lending to individuals under weaker section credit or through cooperatives, there are comprehensive instructions and clear guidelines on lending norms, refinance, training, guarantee cover, etc. The Task Force considers that instructions already issued in this regard are adequate. However, as regards SHG-bank linkage programme, it observed that even though RBI had issued detailed instructions on SHG-bank linkage vide its circular dated 02 April 1996, covering to some extent, aspects on support mechanism for the banks, there is need for further reinforcing the same in view of the emphasis given by the GOI on SHG linkage and the role of SHGs in poverty alleviation. Experience has also borne out that there is felt need for further enlarging the support mechanism to achieve the desired coverage of the poor through SHG linkage.

6.1.3. Regarding various micro-credit delivery mechanisms implemented by mFIs, the present support system seems to be grossly inadequate and calls for massive financial and technical assistance to the mFIs besides a conducive policy framework on their role in banking with the poor. This chapter deals primarily with the support mechanism for mFIs for the SHG-bank linkage programme as also other mF delivery mechanisms through mFIs.

### 6.2. Scaling Up of SHG-Bank Linkage

6.2.1. The Task Force has studied with interest the progress of the SHG-bank linkage programme which is gaining increasing acceptance among bankers. As on 31 March 1999, about 550 NGOs and 202 banks have participated in the linkage programme to expand their activities in 280 districts of the country. NGOs have realised the importance of microfinance to sustain their core programmes in the social sector and are coming forward to undertake SHG promotion and linkage as an "add-on" activity. The Task Force considers it very significant that GOI has also recognised the utility of the programme and has asked NABARD and SIDBI to endeavour promotion of 50,000 SHGs during the year 1999-2000 alone.

6.2.2. As indicated earlier, RBI has issued comprehensive instructions to banks to treat SHG-bank linkage as a business opportunity and a part of their corporate plan. Banks were also asked to treat lending to SHGs as a normal lending activity under the priority sector, service area approach and review and monitoring system. The policy prescription of the RBI was also accompanied with intensified programme support of NABARD in the form of 100% refinance and training and sensitisation of bank and NGO officials at various levels. As a result, over 3,000 bank branches have taken up SHG linkage for expanding their outreach to the poor. Major public and private sector banks have also decided to take up linkage banking on a priority basis.

6.2.3. Despite these encouraging developments, NGOs are reportedly facing difficulties in effecting linkage of SHGs promoted by them with banks due to various operational, attitudinal, and at times, policy level problems. Quite often, there are differences in the field level appreciation and application of the instructions issued by RBI and NABARD. The banks, on their part, are finding that there are not enough NGOs in all places to promote SHGs or that SHGs promoted are not mature enough for availing credit from them. There is an imperative need for training and sensitisation of a large number of bank officials at different levels for appreciating various nuances of SHGs and their strengths and needs, the role of associating agencies, and most importantly, to start appreciating SHG-bank linkage as a business proposition.

### **6.3. Operational Issues**

6.3.1. Instances of incorrect interpretation of instructions like insistence on photograph of the entire group, repeated execution of the power of attorney, impounding of deposits, charging of evaluation fees, service charges and visit fees from the SHGs, insistence on deposits from the NGOs or its guarantee, charging higher interest rates on the loans, avoidable and complicated documentation, etc. have come to the notice of the Task Force. Many a time, the entire group is denied any credit facility from the bank on the pretext of one or two of the group members or their relatives being defaulters to the bank branches for some earlier loans. The choice of proper loan product and the period of loan are also not always in the interests of SHGs. The Task Force also observes that in the case of certain banks, the sanctioning power has not been properly delegated to the branch managers, and as a result, proposals for sanction of loans of even small amounts have to be referred to the controlling offices. Though not too widespread, such irritants do create obstacles in smooth flow of microfinance.

6.3.2. The Task Force feels such diversity in field level interpretation of RBI instructions needs to be addressed immediately. Accordingly, it recommends that commercial banks may advise their controlling offices to sort out such issues forthwith during their regular interactions with bank branches as and when the same are brought to their notice by NGOs and mFIs. As such inadequate and inappropriate perceptions of the field level officers might actually arise due to their lack of experience in dealing with NGOs or SHGs or non-exposure to any related training, the Task Force suggests that banks must intensify their training /sensitisation efforts.

6.3.3. On their part, RBI and NABARD may issue clarificatory circulars clearly indicating the correct position/approach in respect of the major contentious issues like impounding of deposits, insistence on collateral, etc.

6.3.4. Many NGOs, mFIs, and other agencies keep complaining that despite clear instructions, SHGs find it difficult, many a time, even to open a savings bank (SB) account. Recent instructions of the RBI and GOI insisting on Income Tax PAN or filling up of an alternate form which requires proof of address in the form of a ration card, etc. have not helped the cause any better. The

Task Force, while taking cognisance of the existing rules and the rationale behind them would like to impress that the very origin of microfinance lies in the fact that it is the existing savings and credit products as well as the systems and procedures that come in the way of the poor accessing such facilities. Development of new products and procedures are, however, the backbone of mF. As any SHG is an informal group with rotating leadership and will be required to open the account in the name of the group, it would not be able to technically comply with most of the presently prescribed requirements. The Task Force feels that the RBI needs to issue suitable instructions to the banks waiving provision of IT-PAN for opening of SB account of SHGs.

6.3.5. The Task Force has also come to understand that many a bank branch insist on a minimum balance to be kept in the SB account of the SHG. As the SHG is expected to use the pooled thrift for internal lending and keep only the temporary surplus with the banks, such insistence on the part of banks may deny them even the first linkage with banks in the form of SB accounts. The Task Force feels that the RBI needs to advise banks suitably in the matter and the Head Offices of banks also need to issue clear instructions to the bank branches.

6.3.6. Attention of the Task Force was drawn to the fact that agencies promoting SHGs in urban areas are facing difficulties in opening accounts with the banks. In this regard, it is considered necessary to recognise the potential of SHGs in urban areas and the needed support from the banking system. The existing instructions on opening of Savings Bank accounts from the RBI vide Circular DBOD.No.DIR.BC. 11/13.01.08/98 dated 10 February 1998 ([Annexure VIII](#)) apparently covers SHGs only under NABARD - SHG Bank Linkage Programme. The Task Force suggests that the RBI may consider issuing suitable clarificatory instructions to banks enabling urban SHGs to open Savings Bank Accounts and receive credit facilities on the same lines as SHGs in the rural areas.

#### **6.4. Support Mechanism**

6.4.1. As regards availability of groups and their eligibility for linkage, the Task Force firmly believes that there is a need for intensifying the support system both in respect of the NGOs/SHGs and the banks. The support mechanism for scaling up of SHG linkage programme would therefore, have to cover all the partners of the programme.

6.4.2. As regards NGOs, SHGs' Federations and other SHPIs, the support mechanism would include their infrastructure and institutional capacity building through induction of trained manpower, HRD of existing manpower, mobility and data building support. In addition, their operational costs for formation and nurturing of groups may also have to be met. At the SHG level, capacity building of SHGs through training and seed capital may be required. As for the banks, the support system may comprise training and refinance.

#### **6.5. Rating of SHGs**

6.5.1. The eligibility of the groups for credit-linkage depends upon their grooming and training as is reflected by their adherence to bye-laws, financial management, behavioural aspects such as group cohesion and transparent and participatory decision making processes. NABARD had outlined the essential broad features of mature SHGs in the operational guidelines issued vide its circular of 26 February 1992 ([Annexure II](#)). The Task Force observes that a few banks and apex

agencies have developed certain rating norms for assessing the maturity levels of SHGs and the experience of various agencies in using such norms is reported to be satisfactory. NABARD has recently circulated such SHG rating norms developed by various agencies to its Regional Offices to facilitate a more widespread interaction on the subject among partner agencies. The Task Force is of the view that as socio-economic conditions vary significantly in different areas, all the participating agencies, viz., apex mF providers, banks, NGOs and mFIs may collaborate together to develop such localised SHG rating norms which will be generally acceptable to all participating partners. Availability of such localised norms will also help initiate action to rectify the weak areas of different SHGs. However, the Task Force would like to emphasise that care should be taken in using such localised norms by the banks and the NGOs and can be taken as an additional tool by them.

## **6.6. Funds Requirement for Upscaling**

6.6.1. As indicated earlier, the linkage programme is poised for a massive expansion. As a sequel to the GOI budget announcement, at least 50,000 SHGs are to be linked by NABARD and SIDBI during the current year and 2,00,000 SHGs by the year 2003. The Task Force wants to emphasise that linkage banking is not a one-shot exercise; it is a process change with the poor, especially poor women, opting for a group approach with support of an SHPI. On its part, the SHPI, once having started the programme by mobilising resources and training its manpower, has to run it on a sustainable level. Continuation of the programme to cover at least one third of the rural poor population by 2008, as envisioned by NABARD, will be a logical extension of its present efforts. Other institutions like RMK also expect the assisted NGOs to direct their SHGs to take up linkage banking after their initial phases. SHG linkage will thus be the major way of banking with the poor in the coming years.

6.6.2. The Task Force has attempted an estimate of the number of institutions required for the scaling up of the linkage programme. Since the SHGs will be scattered over villages, it is estimated that at least 25,000 bank branches of commercial banks, RRBs and cooperative banks will have to be involved. About 4,000 NGOs will also be required to be inducted into the programme to promote SHGs. The Task Force feels that over 2,000 small federations of SHGs are likely to take on the role of NGOs. Even by the most conservative estimates, about 1,00,000 personnel of NGOs and banks will have to be involved in the process.

6.6.3. The financial aspect of the linkage programme has more than one dimension. While loanable funds for linkage can be provided by banks, funds for capacity building will have to be made available to the NGOs, SHGs' Federations and the SHGs by external agencies as social costs. By a rough estimate, the requirement of loanable funds in 2008 may be in the range of Rs. 2,000 crore [Rs. 20 billion] at current prices.

6.6.4. The cost of promotion and nurturing of groups has been reported by various NGOs, mFIs and mF providers to range very widely from as low as Rs. 300 for a group to over Rs. 5,000 per group depending upon the type of client base, the number of groups already formed in an area, and the promoting agency. While the initial costs may seem to be rather heavy, these do generally come down substantially over a period. This cost could perhaps be treated as an investment that is later covered by potential loan business. The task, however, requires specialised inputs to be provided to the animators irrespective of whether they belong to NGOs or formal agencies. This capacity building requirement for the personnel of NGOs, mFIs and mF providers (formal agencies) are estimated to be about Rs. 300 crore over the next decade. As regards capacity building of SHGs, the Task Force does not envisage any substantial cost as the same would be covered within the capacity building of the SHPIs. The Task Force is of the

opinion that these capacity building costs will have to be met through grant assistance by various agencies including the governments.

6.6.5. Given the dimension of the expansion phase of the SHG-Bank Linkage Programme, substantial financial resources for supporting the initiatives of NGOs, SHGs, banks and other partners would be required, more particularly for strengthening their capacities. The linkage programme also needs focused attention if it were to meet the objectives laid down by the GOI in successive budgets for the growth of mF sector. But in the present pattern of supporting capacity building initiatives of various institutions in the mF sector, the availability of funds and arrangements therefor may not be adequate. In the above backdrop, the Task Force appreciates the need for an exclusive mechanism for addressing this requirement and accordingly recommends setting up of a Microfinance Development Fund. Further details about the Fund and modalities of its operations are discussed subsequently in para 6.21

## **6.7. Role of Banks**

6.7.1. Banks have an important role in the upscaling of the programme by garnering the support of more partners. Of late, various types of institutions engaged in social sector activities are coming forward for promotion of groups on a localised basis, limiting their activities in a small compact area. The Task Force feels that banks can join hands with such smaller institutions for effecting linkage and offer guidance to such institutions on proper financial management. Having regard to the emerging role of linkage banking, the Task Force observes that the profitability of the rural branches of the commercial banks and RRBs could be influenced by their involvement in SHG linkage. While initially the poor members dealing through groups have small credit needs, the same will continue to grow with improvement in their social and financial position and transformation as micro-entrepreneurs. They would, therefore, continue to be the customers of the banks providing ever increasing business for them.

6.7.2. The Task Force further observes that the role of RRBs in this regard is more crucial. Even though non-target group lending has given them some avenues for bigger loans, in view of the predominance of small borrowers in their command areas, they will have to bank on all the available opportunities. The Task Force has observed with interest that for the first time, since inception, RRBs as a group, have been able to register working profits of Rs. 72 crore during 1997-98 and that 126 of them earned current profits during the year. Further, during 1998-99 as many as 148 RRBs earned profit with their combined net profit rising to Rs.250 crores. (data available for 183 out of 196 RRBs). Thanks to comprehensive restructuring and development action planning adopted by the RRBs at the instance of GOI and NABARD, the trend is expected to be maintained in the next few years with capital infusion by the shareholders. The Task Force firmly believes that for the long term sustainability of RRBs, SHG linkage could be one of the profitable avenues of business. The RRBs, therefore, need to give special emphasis on linkage banking without any loss of time by sensitising and training their entire staff at all levels. Since RRBs do not have their own training facilities, sponsor banks and NABARD will have to take special steps to arrange training for the field level and other officials of the RRBs.

6.7.3. As regards viability of the RRBs, the Task Force has observed that certain RRBs may have extremely limited avenues for conventional business. Linkage banking with the poor may, in such a situation, not only bring additional business to the branches concerned, but may lead to the revival of the bank itself. The Task Force has come across several instances of RRB branches having substantial SHG lending. The heartening aspect of such advances is that they tend to increase both quantitatively and qualitatively over time. The Task Force, therefore, recommends that all RRBs may take proactive measures for adopting linkage banking not only in close association with NGOs, SHGs' federations and other partners, but also explore the possibilities for promoting groups themselves.

## **6.8. Banks as SHPIs**

6.8.1. With a view to exploring whether bank branches can themselves promote and link SHGs in a cost effective manner, NABARD launched an experiment in 1995 through Cauvery Grameen Bank, an RRB in Karnataka, and MYRADA. The Task Force observed that encouraged by the positive response from the selected 10 branches of the RRB, the experiment has been extended by NABARD to 10 more RRBs in the country. Independent of this specific programme, some of the RRBs have, on their own, started training their branch staff for promoting, nurturing and financing SHGs. The experience of such banks, viz. Gomti Grameen Bank, Aligarh Grameen Bank, North Malabar Grameen Bank, Sahyadri Grameen Bank, etc. is reported to be extremely good.

6.8.2. Even some of the commercial banks like the Oriental Bank of Commerce and Bank of Madura Ltd. have taken up the task of group formation through their own branch staff. Their experience is also reported to be extremely satisfactory. The Task Force understands that Bank of Madura Ltd., a private sector commercial bank, has adopted the route of the microfinance and more particularly the SHG linkage for turning around and making viable its 104 rural branches. For this, the bank has, besides streamlining its administrative set-up and personnel policy, taken up the task of promoting SHGs through its branches.

6.8.3. Even some of the cooperative banks like the Hoogly District Cooperative Bank (West Bengal), Bidar District Cooperative Bank (Karnataka) and some PACS like the Madapalli PACS in Kerala have promoted a large number of groups through their own staff. The Bidar DCCB has set up an exclusive SHG Cell, manned by experienced NGO functionaries, not only to facilitate promotion of SHGs in the district through its own efforts and through the bank staff but also to provide guidance and leadership to some smaller NGOs in the district. Such actions have enhanced the credibility of these banks in the rural areas and has helped them improve their overall business including enhanced repayment levels for the bank as a whole.

6.8.4. The Task Force strongly recommends that the rural branches of RRBs, cooperative banks and even commercial banks may train and sensitise their staff to closely associate with NGOs, mFIs and other partners in SHG linkage. While RRBs and cooperative banks may take active part in promoting SHGs themselves, commercial banks may also consider taking up this role selectively.

6.8.5. At present, only in a few states, viz. West Bengal, Kerala, Orissa, Karnataka and Himachal Pradesh, the respective state cooperative societies Act or specific notification provides for the membership of informal SHGs in PACS. The Working Group on NGOs and SHGs (1995) recommended that the state governments may take active steps to amend their respective cooperative societies Act / bye-laws / rules to have enabling provisions for the enrolment and financing of SHGs by cooperatives. As the DCCBs and SCBs in different parts of the country are adopting the SHG route for enhancing their business, the Task Force also wants to emphasise that the other state governments may take steps for making necessary legal provisions for the

enrolment and financing of SHGs by PACS/DCCBs. It is of the firm opinion that the intermediation of SHGs as a subsystem of the cooperatives could be useful both for the revival of the cooperatives and the increased support to the poor.

## **6.9. Involvement of SHGs in Government Sponsored Programmes**

6.9.1. The Task Force has observed that a large number of government sponsored programmes are including SHGs or their variants as a delivery mechanism for implementation of various types of socio-economic programmes. The notable among them are CDS in Kerala, DW CRA and UNDP groups in Andhra Pradesh, groups promoted under the project of Uttar Pradesh Land Development Corporation (UPLDC) in Uttar Pradesh, and Mahalir Thittam of Women Development Corporation in Tamil Nadu. The Task Force has come across some enthusiastic initiatives on the part of certain government officials who pooled resources from various development programmes and utilised the same for the promotion and nurturing of SHGs as vehicles for implementation of such programmes. The Task Force has observed that the pioneering initiatives of those officials in certain districts have snowballed into massive programmes of SHG linkage in some states. It hopes that other state governments and bureaucrats will also be inspired by the achievements of these states. Simultaneously the **Task Force feels that there is need for care and circumspection in this regard to ensure that the basic tenets of SHGs, viz. group dynamics, participatory decision making, peer pressure, transparent accounting, regular savings, and high degree of attention on loan repayments are not lost sight of in pursuit of targets.** In this regard, the Task Force also emphasises on the need for training and sensitisation of government officials and impresses upon RBI and NABARD to coordinate with the line departments of the state governments to work out suitable training programmes for them.

### **6.9.2. Swarnjayanti Gram Swarozgar Yojana (SGSY) and mF**

6.9.2.1. In order to converge the resources and efforts involved in various self-employment programmes like IRDP, TRYSEM, DW CRA, GKY and SITRA and to bring in more conducive people based delivery mechanisms, the GOI have decided to restructure the existing schemes into a new programme known as Swarnjayanti Gram Swarozgar Yojana (SGSY) from April 1999. This programme intends to cover different aspects of self-employment such as organisation of the poor into SHGs, training and skills upgradation, and provision of credit related subsidy, technology, infrastructure and marketing. As mentioned in the guidelines of GOI, the programme will focus on SHG approach with loan funds coming from the banking system and seed capital to groups, subsidy for income generating activities, and capacity building support coming from the government. **As per the existing guidelines of this programme, however, provision of seed capital and loans to SHGs is envisaged independent of the savings of the SHGs.** The programme also envisages disbursement of seed capital and loans at fixed periodic intervals and select income generating activities identified by a district level committee to be adopted by the groups in clusters. While the programme has recognised the SHG approach for improving the quality of implementation of the SGSY, it has adopted certain features which do not conform to the tested model of SHGs under the linkage programme. The Task Force wants to emphasise, in particular, about the absence of linking of seed capital and loans to savings and not leaving the choice of selection of activities to the discretion of the group as areas of concern which may

affect the SHGs already promoted and linked, promoted and waiting for linkage and those to be promoted in future. **The Task Force is therefore of the considered view that the Ministry of Rural Development, GOI may review the guidelines in consultation with RBI, NABARD, banks and NGOs to avoid any dilution in the essential features of SHGs and issue necessary supplementary instructions.**

## **6.10. District - Intensive Approach**

6.10.1. The interest shown by the GOI for widespread expansion of the SHG linkage programme suggests that a large number of partner agencies will have to work in a coordinated manner in different parts of the country. The Task Force feels that district intensive strategies may work best in such a case. It has come to the notice of the Task Force that certain RRBs and NGOs intend to enter into MOUs for working together for promotion and linkage of SHGs in a time bound manner. In order to achieve the broad objectives of the linkage banking programme, a number of such district-intensive collaborative efforts could be encouraged and supported which would be beneficial to all the partners. The Task Force is of the view that such district-intensive initiatives could also be adopted by more banks, NGOs and government departments.

## **6.11. Financial Support for mFIs**

6.11.1. mFIs have to source funds, generally on their own, from various national and international agencies for implementing their programmes. Having regard to the emerging scenario of the microfinance sector in the country and the need for capacity building in the agencies involved, the support mechanism will have to take care of both on-lending funds and capacity building needs.

6.11.2. The options available to the mFIs for getting such assistance are as under :

1. foreign contributions - donor agencies;
2. assistance from government and other national agencies;
3. sourcing market;
4. securitisation of debt;
5. tapping household savings;
6. support from philanthropists; and
7. linkage with the banking system.

6.11.3. Donor agencies had been playing a major role in meeting the funds requirements of many of the mFIs. A good number of prominent agencies like SDC, IFAD, CIDA, KfW, Ford Foundation, USAID, RABO Bank, etc. are supporting such programmes being implemented through NGOs. However, the aggregate assistance from donor agencies for microfinance activities could not be assessed by the Task Force. In most of these programmes, the mode of

assistance from the agencies is in the form of grant. For a very widespread expansion of the programme, however, this source of funding may not be adequate in the long run.

6.11.4. With the emergence of NGOs as a major delivery mechanism of development assistance, the budget allocation for expenditure through NGOs is steadily increasing. CAPART identifies NGOs for the implementation of many such government programmes. Apart from the governments, several national level agencies are providing financial support to the mFIs and NGOs for implementing their own economic and microfinance programmes. A reference may be drawn in this regard to the programmes being implemented currently by NABARD, SIDBI, RMK, HUDCO, etc.

6.11.5. As indicated in chapter-2, NABARD has provided limited support to some alternative credit delivery models of the mFIs by extending both on-lending and capacity building funds. Under its Microcredit Scheme implemented since 1994, SIDBI has been extending soft loan assistance to accredited NGOs for on-lending amounts not exceeding Rs. 10,000 per borrower, especially women, for promoting micro-enterprises in the non-farm sector. RMK also offers financial assistance to the NGOs, Women Development Corporations and Cooperative Societies in the form of short and medium term loans. HUDCO has also reportedly formulated a scheme for providing assistance through NGOs to the rural and urban poor for housing purposes.

6.11.6. At present most of the mFIs are registered under such provisions which do not allow them to go to the market for funds. In case an mFI wants to raise funds from the public, it must first be incorporated as a company. Further, it has to acquire enough credibility and confidence through its operations to arouse interest among the public about its activities to eventually lead them to invest in the company. At present when the microfinance sector is still in the evolving stage, such a possibility appears distant.

6.11.7. As regards securitisation of debts, the Committee on Financial Sector Reforms [II] 1998, has, as a measure of improving the efficiency and imparting flexibility, recommended the debt-securitisation concept under the priority sector lendings. Accordingly, the banks which could not achieve their target may purchase the debt from the institutions which have reached the mandated percentage. The above concept would help the mFIs when a particular institution wants to raise funds against its debts from other mFIs. The Task Force, however, feels that the mF sector has not reached its full potential to use such instruments.

6.11.8. The Task Force observes that it may generally be possible for the mFIs to tap savings only from the client households and not from the unrelated households. However, through compulsory or optional savings schemes, mFIs do collect savings from the clients / loanees which, thus, constitute a portion of their loanable funds.

6.11.9. Many mFIs are of the opinion that there are a lot of philanthropists who would like to provide large deposits even at low or nil interest rates to mFIs to help them augment their loanable funds base provided they are offered some tax concessions. Such philanthropist individuals or organisations would not need ratings of NGOs or their savings products, but would

do so because of their own conviction and assessment of the NGOs. The Task Force feels that ways to exploit this possibility need to be looked at seriously.

6.11.10. The Task Force observes that even as the banking sector in the country is flush with surplus funds and CD ratio of the commercial banks hovers around 56% (March 1999), there remains vast unmet demand for credit in the rural areas. High transaction cost, low recovery, and a constant fear of NPA are deterring banks in expanding their credit operations to the weaker sections. Any immediate and marked improvement in the situation may not happen in the very near future in view of the banks' other priorities and obvious preference for the large-volume avenues.

6.11.11. While SHG linkage programme provides a cost-effective supplementary mechanism for reaching the poor, supporting microfinance activities of mFIs may be another cost-effective way for the banking sector to deal with the poor. The Task Force does not visualise this to supplant the existing arrangements for banking with the poor, but to provide an additional avenue for the banking sector to reach to the poor in conjunction with the existing arrangements. The Task Force feels that the loanable funds requirements in the mF sector could far outstrip savings available in the mF sector, and hence mF sector will also have to necessarily rely on the banking sector.

6.11.12. The linkage of mFIs with the banking system will aim at using the intermediation of mFIs between the banks and the rural poor for :

1. evolving an additional delivery mechanism for providing financial services to the rural poor by combining the service ethos, grassroots link and familiarity with rural milieu possessed by mFIs with the financial resources of the formal banking system;
2. encouraging thrift and credit activity in a segment of the population which could not be reached by the institutional credit delivery system;
3. creating future quality clients for the banking system; and
4. generating healthy competition among institutions in the rural areas for promoting sustainability among them.

## **6.12. Mainstreaming mFI - Bank Linkage**

6.12.1. The Task Force visualises the immense potential of the linkage of mFIs with banks and DFIs and expects the banking system to take a cue from the success of the SHG linkage. The need for self-targeting the linkage both at macro and micro levels cannot be overemphasised if the rural bank branches and mFIs have to work sustainably. The Task Force observes that the linkage of mFIs with bank branches has many advantages both for the banks and mFIs. First, the recovery performance of the loans through mFIs or SHGs has been found to be highly satisfactory at near 100% as against 50% to 60% in the case of normal rural lending. Second, intermediation through mFIs significantly reduces the transaction costs of both the bank and the mFI (as also those of the borrowers) thereby assuring reasonable margins on their operations. And third, bank branches have the opportunity of getting future quality clients, both for deposits and loans.

6.12.2. In this perspective, the Task Force has examined whether financing mFIs can be taken as a regular credit activity by the banks under their advances portfolio. In this regard, the Task Force observes that several mFIs had proved that they could provide both savings and credit

services to the poor with efficiencies comparable to other agencies. There is, therefore, an imperative need for encouraging such initiatives of the mFIs. By extending finance to such mFIs, the banking system would not only be providing credit but also affording the poor an opportunity to keep safe their meagre thrift and leverage and secure their credit with it. Considering the high transaction costs (for both the poor and the delivery agency) and banks as a ready source of finance, the Task Force is of the opinion that banks should consider lending to mFIs as a business opportunity to improve their outreach in a participative manner and adopt mFI linkage as a part of their normal credit activity. Incidentally, the Budget speech of 1999-2000 and the credit policy that followed have enabled banks to lend to NBFCs for the purpose of on-lending to the tiny sector industries to be included within the priority sector lending of the banks. **The Task Force, therefore, recommends that the RBI may consider issuing appropriate guidelines to all banks to treat lending to mFIs also as part of their regular credit operations for the weaker sections under the priority sector lendings.**

### **6.13. Modes of Bank-mFI Linkage**

6.13.1. The Task Force has noted that the mFIs resort to different mechanisms for providing their financial services to the target poor which include financing the poor either directly or through SHGs' federations, SHGs or other types of groups, and small cooperatives. Credit linkage with banks (including DFIs) will bring large loanable funds in the hands of mFIs and reduce their dependence on donors. Apex agencies like NABARD and SIDBI can either refinance banks or provide loanable funds directly to the mFIs or mFI-networks.

6.13.2. As regards the issue whether there should be any ceiling on bank's lending to mFIs either with reference to the exposure of a particular branch to mFIs or extent of the loan given by a bank branch to one single mFI, the Task Force does not consider it necessary to fix such a ceiling. The present borrowers of the bank branches will prefer to deal with them in the manner in which they are presently dealing and there is no likelihood of their switching over to mFIs. Further, mFIs are expected to enlarge their business and outreach by and by. Consequently, the branches are unlikely to extend credit of a sizeable extent to any mFI right at the beginning. The Task Force feels that each bank will have to take its own decision on the basis of mutual relationship it wishes to develop with an mFI.

6.13.3. The Task Force observes that NABARD and SIDBI are providing revolving fund assistance/loan to mFIs as part of their promotional efforts for the development of mF sector. Such initiatives are mainly of the nature of experiments awaiting mainstreaming of mFI linkage with the banking system. While mFI-Bank linkage is strongly recommended by the Task Force as the principal source of funds for the mFI sector, the Task Force feels that both NABARD and SIDBI may continue to provide such direct financial assistance to the mFIs, wherever necessary.

6.13.4. At present, SHG-bank linkage programme is a part of the service area plan of the bank branches. The Task Force suggests that linkage with mFIs may also be part of the Service Area Approach of the banks and suitable instructions in this regard may be issued by the RBI.

6.13.5. As of now, there are 13 segments of the priority sector. A few of the segments pertain to indirect finance. Since banks will finance to mFIs for on-lending to the poor, the Task Force recommends that "Lending to mFIs" may be treated as priority sector advances under the existing segment of "Loans to SHGs / NGOs" and the same may be renamed as "Loans to SHGs /

mFIs". Suitable activity and borrower codes may be allotted to this segment for its proper reporting under the computerised rural credit monitoring system, SAMIS.

#### **6.14. mF and Other Social Sector Interventions by mFIs**

6.14.1. Quite often an mFI mixes its microfinance operations with other social development activities or vice versa as it improves the impact and sustainability of its activities. A bank, while dealing with an mFI, will want to be assured that the cash flows generated by the mFI out of its microfinance operations are sufficient to repay the bank's loan and interest. The Task Force does not consider it prudent to suggest amortisation of the bank loan from donor's or external funds. However, viability of the lending operations of the mFI may be considered from two levels; without any external support and with external support to meet, say, a part of the operating costs. While leaving the issue of judging the viability of lending to mFIs to the commercial judgement of individual banks, the Task Force suggests that mFIs will have to work out accounting practices that segregate their microfinance operations from the other developmental activities, before dealing with banks to facilitate linkage with banks.

#### **6.15. Types of Loans**

6.15.1. The Task Force observes that the choices for financing of mFIs are a single loan, multiple *tranche* loan, one-year short-term line of credit or medium term line of credit. While recognising the discretion of the banks in preferring a particular type of loan, given the nature of activities financed under mF, multiple-*tranche* loans with disbursements scheduled over a prolonged period appear to be most suited. Banks may in fact have to select appropriate loan products to suit the needs of both mFIs and the borrowers of mFIs. Such products might include a flexible loaning system of drawals and repayments with suitable grace periods. The banks and mFIs will have to, however, ensure that there is no large-scale variation between the maturity periods of bank loans and mFI loans to clients.

#### **6.16. Lending Norms**

6.16.1. The Task Force observes with great appreciation the policy support being provided by the RBI for the orderly growth of SHG bank linkage programme from time to time. This was the forerunner for the various mF initiatives developed by the NGOs in different parts of the country. Recognising the need for the growth of this sector, RBI has also taken the initiative by deregulating the rate of interest applicable to loans given by banks to mFIs or by the mFIs to SHGs/member beneficiaries. Both banks and mFIs will have to fix their respective interest rates judiciously and ensure that they cover their own costs.

6.16.2. The Task Force feels that security for the loans to be availed of by the mFIs from the banks is going to be a crucial issue in the mFI linkage programme. It finds that mFIs will

generally be hard placed to offer both primary and collateral securities. Most of the mFIs may not be in a position to offer collaterals due to restrictions in respect of donor supported assets, or absence of such assets. Due to innumerable small loans at the ground level, they may not be in a position to put in any primary security also, except their book debts. The Task Force observes that the banks have to consider other aspects of the dealings and performance of the mFIs for the purpose of securing their loans. The past performance of the mFIs in terms of outreach, savings mobilised, number of borrowers, their repayment performance, increase in the amount of outstanding over the years through increase in loans and the number of borrowers i.e. the quantifiable and verifiable indicators show the strength of the mFIs. The banks may consider extending loans to the mFIs in proportion to savings mobilised by them, the extent of loans gradually increasing over time with repayment performance, increase in outreach and viability of the operations of the mFI. The Task Force suggests that initially such ratio of savings to credit could be 1:1.5 or so and gradually increase to 1:10. The banks may also take assignment of all book debts of the mFIs and may enter into an agreement that all loan outstandings against the branches are held in trust by the mFIs on behalf of the banks.

6.16.3 The Task Force feels that with registration, fixation of performance standards, application of prudential accounting norms, development of proper selection criteria, etc the banks may take assignment of book debts as the major component of security and finance mFIs without traditional collaterals. On their part, the mFIs may, wherever possible offer available collateral like existing premises, vehicles, etc. The savings mobilised by them for the clients/loanees and deposited with the bank could also be treated as collateral substitute.

6.16.4. The Task Force has come across in this regard some interesting development regarding promotion of some "guarantee funds" for securing bank loans to mFIs. There have been attempts from certain quarters for creation of guarantee funds with fund support from donors and other financial institutions. In the past, credit guarantee schemes of DICGC have not met with success due to various reasons. The Task Force does not favour guarantee claims for failure of an institution to collect its dues. Instead, it recommends payment of "incentive claims" to the mFI, if the full repayment is as per schedule. As indicated in para 2.22.1 of chapter 2, the Task Force also recommends that mFIs may set up their own risk funds to take care of loan losses which will further help banks in taking favourable credit decisions.

## **6.17. Criteria for Selection of mFIs**

6.17.1. With a view to ensuring that the banks deal with mFIs having proper credentials, track record and attitude, it is necessary that they are subjected to suitable rating norms and performance standards to judge their intrinsic strengths and weaknesses. Like their corporate clients, banks need to make an assessment about the mFIs before sanctioning any loan. The assessment will have to be based on relevant factors like legal status, core competence, track record, transparency in operations, etc.

6.17.2. At present credit rating agencies like CRISIL, CARE, ICRA and DCR India undertake rating of different products of banks, NBFCs and other financial institutions whenever they approach the public for funds with instruments like debentures, fixed deposits and bonds. In the case of mFIs, the position is slightly different. These institutions seek bulk funds from banks and financial institutions for their on-lending operations for a special type of clientele, i.e. unreached and underserved poor. As such, the conventional rating norms, based to a large extent on the

financial soundness of the rated institutions, may not be applicable. What is required is the appraisal of the mFI itself, rather than its products. The Task Force has come to know that EDA Rural Systems, Gurgaon, is offering fee-based mFI rating services and has provided such services to certain mFIs in this country as well as in Nepal and Bangladesh. On their part, NABARD, SIDBI and RMK have worked out identification norms for mFIs for their own use. The Task Force feels that banks may use such tools and analyses developed by other agencies, or may develop their own tools for assisting their own mFI appraisal.

6.17.3. While recommending formulation and use of such rating or selection norms by the banks, the Task Force also underscores the importance of the certification from self-regulating organisations, wherever they become functional. The SROs, on their part, can work out identification norms, which would be useful to the banks.

## **6.18. Support to the Banking System**

6.18.1. The Task Force observes that linking of mFIs with the banking system depends entirely on the understanding of the functioning of the mFIs by banks. The basis of the dealings between the bank and the mFI has to be one of collaboration for serving the poor in the common areas of operation. This differs, to a significant extent, from the conventional advances of the banks, including the indirect ones.

6.18.2. The Task Force has noted that NABARD has already initiated a number of sensitisation training and exposure programmes for bank officials under the SHG linkage programme. Through these programmes about 7,000 bank officials have been trained so far. These trained officers are now well aware about the functioning of the NGO sector. While this could be the launching pad for the bank branches to start their own schemes of mFI linkage, there may be a need for exclusive programmes that focus on such relationships. The Task Force feels that as of now not many institutions other than NABARD and SIDBI have expertise and capacity to conduct or support such exclusive programmes. The Task Force feels that both NABARD and SIDBI may take initiative to design and conduct such programmes for the bank officials.

### **6.19.1. mF Cells / Specialised mF Branches in Banks**

6.19.1.1. Banking with the poor could eventually be through three institutionalised channels: traditional finances by the banks under weaker section lending, SHG-bank linkage, and bulk lending to mFIs for on-lending to their poor clients. Considering the escalating transaction costs of the formal banking system, the Task Force is inclined to believe that in future banking with the poor could be most cost-effective through SHGs or through the mFIs. In other words, individual direct microfinance by bank to a poor (new) borrower at the pre-microenterprise stage may not be a cost-effective proposition and may get limited to amounts above a certain minimum level. All these banks may have to necessarily take to mF through SHG-bank linkage or other credit delivery initiatives through mFIs for banking with the poor. The Task Force observes that in the area of agricultural lending, SSI sector, etc., specialised branches have been opened by the commercial banks. On the same lines, it would also be an effective arrangement if specialised branches for mF are also considered by converting some of the potential rural branches specially

for financing mFIs. To start with, the Task Force recommends that all banks would set up a mF Cell in their Head Office and controlling offices to give more thrust to the mF sector financing by them.

### **6.19.2. Formation of Trusts, Foundations by Banks**

6.19.2.1. At present, banks are involved in SHG linkage programme and other credit delivery models, either by effecting linkage of the groups promoted by NGOs and other organisations or by promoting groups on their own through their own staff and linking them. In this regard, the Task Force observed that certain commercial banks had set up their own trust or foundation mainly to undertake various promotional activities like training, extension services etc. for securing integrated development of their specified area of operation. It could be a good opportunity for such banks to coordinate the activities relating to formation of groups and other promotional activities for mF through these trusts and foundations. Having regard to the immense potential of the linkage programme and the need for supporting such initiatives on a continuous basis, the Task Force recommends that other commercial banks may also consider setting up of trusts/foundations for giving a thrust to such promotional activity.

### **6.20. Role of Refinance**

6.20.1. At present, NABARD provides 100% refinance to all categories of banks [commercial banks, RRBs and cooperative banks] at 6.5% rate of interest against their lending under linkage programme. As regards mFI linkage, it gives refinance only to commercial banks to the extent of 100% of their bulk loans to NGO-mFIs for on-lending. The Task Force feels that NABARD may review the existing scheme of refinance to banks for mFI linkage, i.e., bulk lending to mFIs [outside SHG linkage] and enlarge its scope to include RRBs and cooperatives also under this channel, although these institutions will have to be extremely cautious in such dealings. Incidentally, it may be observed that SIDBI provides refinance to banks for on-lending to non-farm micro-enterprises. The Task Force observes that the scope of the scheme may be extended for supporting mFIs in semi-urban and urban areas. These efforts will act as an inspiring factor for the banks. .

6.20.2. As regards the rate of interest on refinance by NABARD and SIDBI to banks, the Task Force examined the issue with reference to the present rates and the deregulation of interest at the borrower's level. It feels that in the spirit of deregulation, NABARD and SIDBI may fix their own interest rates to banks for financing mF sector.

### **6.21. Support to mFIs - Microfinance Development Fund [mFDF]**

6.21.1. Capacity building enhances the ability of the mFIs and their clients [groups/ individuals] to function more effectively in achieving their stated objectives. As indicated in para 6.6.5, support for capacity building of mF partners will be required for both scaling up of SHG linkage programme and other credit delivery initiatives of mFIs. Broadly, the components of capacity building would cover the following:

1. organising client groups;
2. training SHGs/other groups/individuals;
3. training mFI personnel;
4. infrastructure support towards training and system management;
5. mobility of mFI;
6. data building support;
7. engagement of professionals;
8. action research and development.

6.21.2 In addition to the above, the mFIs would also require assistance for :

1. start -up funds for mF activities;
2. meeting operational deficit; and
3. equity support.

6.21.3. As part of their initiatives, most mFIs provide, apart from the mF services, capacity building support to their clients. Their approach however, varies widely. In the case of SHG linkage, mFIs spend considerable amount of money, time and labour in the preparatory stage. They also incur expenditure in grooming their own field and other staff through various types of training over a period of time. Further, convening of meetings, house to house survey, visits and interaction, arranging exposure field visits for the borrowers, etc. involve costs. Although per head expenses on training of NGO staff may not be high, establishment costs on field workers often place most of the mFIs in constant financial hardship.

6.21.4. The Task Force examined the entire gamut of assistance to mFIs and observed that most of these agencies are getting only sporadic assistance from various institutions for their capacity building. The support mechanism for mFIs needs to include, besides financial resources, fund support for the training of the personnel of the mFIs, building of database and systems requiring infrastructure and hardware (computers, vehicles, etc.). In addition, the mFIs would require start-up capital/capital funds as also support for meeting operational deficits in the initial periods of the operations. They would also require to engage professionals for designing and strengthening systems for conducting their mF operations/ activities. Further, those NGO-mFIs desirous of floating mF-NBFCs, would require equity support. A number of mFIs are engaged in action research projects which may result in development of bankable models in the area of mF.

6.21.5. As indicated in para 6.11 above, there is no institutional arrangement for providing capacity building support to the mF sector. At present, such needs of mFIs are met in a limited way by international donor agencies and national level institutions like NABARD, SIDBI and RMK. The support provided is also sporadic and on a case by case basis. Keeping this in view and the need for institutionalising the arrangements for strengthening the mF sector, the Task Force has recommended setting up of a Microfinance Development Fund .

6.21.6. The Task Force examined various aspects relating to formation, funding, management and operations of the Fund. It observes that NABARD as the apex bank with focus on integrated rural development has pioneered the concept of linkage banking and is supporting the various credit delivery models. In this context, as indicated earlier, SIDBI has already set up a Microcredit Foundation to provide mainly loan funds to mFIs requiring loan assistance of minimum of Rs. 50 lakh per mFI. Further, the focus of its Fund assistance will be only for non-farm activities. Needless to mention that a large support would be required to be provided to the innumerable small mFIs for supporting their various activities in the rural and semi-urban areas for both agricultural and non - agricultural purposes. In the circumstances, the Task Force recommends

that the proposed Microfinance Development Fund may be created in NABARD with start-up contribution of Rs.100 crore from GOI. RBI and NABARD may also contribute to this Fund from their annual profits. The Fund may receive gifts, grants, donations and other benefactions from national and international agencies.

6.21.7. At present, in a number of government sponsored poverty alleviation programmes, a component for capacity building of the NGOs and grassroots level structures is provided as part of the programme funds. The Task Force observes that by routing such funds through the proposed mFDF, economies of scale in operations and synergy in action could be achieved. Therefore, it recommends that a part of such funds may be made available to the Fund through budgetary allocations.

6.21.8. The mFDF may be used for supporting mFIs for components enumerated in para 6.21.1 and 6.21.2. The management of the Fund may be vested with a Board of Management headed by NABARD and comprising experts and professionals in the related areas. The following institutions/ mFIs will be eligible for support from the Fund :

- mFIs [all classes];
- SROs;
- any rural banking and financial institutions;
- training and research institutions; and
- those decided by the Board of Management.

## **6.22. Organisational Strengthening**

6.22.1. Considering the divergent approach and methodology adopted by different mFIs, the Task Force recognises the need for better coordination and interaction among the mFIs at the regional and national level for improving the range and quality of services. The approach of each mFI is found to be unique as far as field level replication of a concept is concerned. There can be no gainsaying that sharing of experience at regular intervals will benefit all mFIs alike and will also enable them to find solutions to their field level problems. In the wake of the Microcredit summit held at Washington in February 1997, several initiatives towards forming associations or collectives of mFIs have been noticed. The following initiatives are notable among them :

1. India Collective under the leadership of RMK;
2. INDNET under the aegis of SHARE;
3. SA-DHAN; and
4. INAFI -India.

6.22.2. Several other collectives / fora have also developed at cluster or regional levels. The Task Force, however, feels that such initiatives for forming these collectives / fora should come from the mFIs themselves and to strengthen their operations, they should frequently exchange ideas,

information, and practices followed by them. The financial institutions and banks may also provide support to such fora for the evolution and growth of the microfinance sector. These fora may also eventually help in the development of the self-regulatory organisations (SROs).

### **6.23. Inter - Agency Coordination**

6.23.1. In the context of the emerging developments in the microfinance sector, the Task Force deliberated on the need for inter agency coordination. Today, mF has several partner agencies, viz. mFIs, banks, governments, financial institutions, and national and international donor agencies having interactions and collaborations with NGOs and mFIs almost totally independently. In the interest of serving the poor in a cost-effective and sustainable manner, inter-agency coordination needs to be given due importance. At present, the fora of DCC and SLBC are available for such coordination under the Lead Bank Scheme. However, mF related issues get marginalised in such fora due to the fact that most participating agencies are yet to take up mF activities in a big way and mFIs are not members of these fora. The Task Force therefore, recommends that RBI may issue necessary instructions to include select mFIs as regular members of SLBC and DCC. SROs when established may be inducted as members of SLBC.

6.23.2. The Task Force observes that the Working Group on NGOs and SHGs [1995] recommended the constitution of a standing committee on "Microcredit Systems for the Rural Poor" at the national level by NABARD comprising representatives from banks, NGOs, RBI, GOI and other experts. For the development of the mF sector the need for setting up a suitable regulatory and supervisory mechanism has been discussed and agreed upon by the Task Force. The responsibility of instituting the regulatory mechanism of the mF sector rests with the RBI and therefore, the Task Force is favourably disposed towards setting up of such a national level standing committee by the RBI. The Standing Committee may convene its meetings at least twice a year. The terms of reference (TOR) and membership of such a committee are presented in the [Annexure IX](#).

### **6.24. Recovery of mF Loans**

6.24.1. The experience of the financial institutions dealing with mFIs has so far revealed that mFIs had been able to secure high repayment performance under SHG-bank linkage programme and other credit delivery models. This has been possible due to several factors like simple procedures, small operations in a limited area, close and self-supervision, linkage services provided by NGOs, etc. The Task Force observes that with the expansion of mF activities and joining in of many new players, there are possibilities of slackness and in such circumstances, the possibility of slump in repayment may not be ruled out. The Task Force feels that even though banks and borrowing mFIs might take all usual precautions, it makes proper business sense to make use of all available legal provisions to the advantage of the institutions concerned. The Task Force observes that in states where Talwar Committee recommendations have been enacted, recovery proceedings can be started without entailing complicated legal action. It will be in the fitness of things if the loans given by banks through the mFIs are also included in such loans as coming within the meaning of the relevant Act. The Task Force, therefore, recommends

that the state governments may suitably amend the provisions in the Miscellaneous Loans Recovery Act.

## **6.25. Research and Documentation**

6.25.1. The Task Force feels that research and documentation have a big role in the growth of microfinance sector in our country. To this end, it is of the view that several initiatives can popularise the concept of microfinance in the voluntary and financial sectors in the country. Firstly, in the various institutes of social sciences across the country, microfinance may be included as a subject of study and research. The Task Force has noted that the Indira Gandhi National Open University (IGNOU) has initiated a one-year Diploma course on SHGs and related areas. It commends IGNOU for this foresighted decision. Secondly, prominent financial institutions can encourage research on the subject by instituting a few fellowships in select universities. Also, a few faculty/ chairs may be supported for encouraging teaching and research on the subject. Thirdly, national level institutions like NABARD, SIDBI, etc. may specially look into the needs for more documentation and publication of the success stories, research studies, data, etc. in this sector .

6.25.2. As regards data on mFIs, the Task Force observes that in the absence of any compulsory reporting, mFIs do not have to furnish data to any agency. As a result, no database on mFIs has developed. The Task Force is of the strong view that database in the microfinance sector needs to be encouraged by funding proactive initiatives in the sector. Institution of a regulatory process at the regional and national level may also generate sufficient database on the subject. Further, associations of mFIs and SROs, as and when developed, may take lead in this regard. RBI, NABARD and SIDBI may support such initiatives. Collection of data on the mFIs, especially by institutions like Centre for Monitoring Indian Economy [CMIE] in various parts of the country may also be encouraged.

## **6.26. Highlights of the Chapter**

- i. *Inadequacy of support system for micro-credit delivery mechanisms implemented by mFIs*
- ii. *Need for a conducive policy framework for support mechanism*
- iii. *SHG-Bank Linkage Programme - upscaling :*
  - *Gaining increasing acceptance among bankers*
  - *Recognition from GOI - NABARD and SIDBI to cover 50,000 SHGs during 1999-2000*
  - *RBI to issue guidelines with regard to waiving of IT-PAN and minimum balances for opening of Savings Bank accounts by SHGs*
  - *RBI to issue instructions for opening of S.B. accounts and credit support for urban SHGs*
  - *RBI/NABARD to issue clarificatory instructions on major contentious operational issues [impounding of deposits, insistence on collaterals and photograph of the entire group of SHG, etc.]*

- *Capacity building support required for NGOs, SHGs' federations and SHGs*
- *Banks require training and refinance support*
- *Banks, mFIs and NGOs to develop localised SHG rating norms*
- *Continuation of the SHG Linkage Programme to cover one third of the rural poor by 2008 as envisioned by NABARD, is a logical extension of the present initiatives*
- *To achieve that level, involvement of 25,000 bank branches, 4000 NGOs, 2,000 SHGs' Federations and about 1,00,000 personnel of NGOs and banks required*
- *Requirement of loanable funds in 2007-2008 will be of the order of Rs.2,000 crore*
- *Capacity building support of Rs.300 crore will be required over the next 10 years.*
- *Banks, particularly RRBs have evinced interest in promoting SHGs as business strategy*
- *State governments to make provisions for enrolment and financing of SHGs by PACS /DCCBs*
- *RBI and NABARD to coordinate with state governments to work out training programmes for government officials*
- *GOI to review guidelines on SGSY particularly on linkage of savings with bank loan and discretion in choice of activities*

#### *iv. Financial support for mFIs*

- *RBI to issue guidelines on linkage of mFIs with banks as priority sector credit*
- *No ceiling on banks' lendings to mFIs either with reference to exposure of a particular branch to mFIs or exposure to one mFI needed*
- *Banks to select appropriate loan products for mFIs*
- *With registration, fixation of performance standards, application of prudential accounting norms, development of proper selection criteria, etc. the banks to take assignment of book debts as the major component of security and finance mFIs without traditional collaterals.*
- *Savings to credit ratio for mFI lending as security can range from 1:1.5 to 1:10*
- *mFIs to set up their own risk funds.*
- *Banks to use rating norms developed by other agencies or develop their own tools for mFI appraisal*
- *All banks to set up mFI cells and consider converting select rural branches into specialised mF branches*
- *Banks to consider setting up of trusts/foundations for giving impetus to their promotional activities under mF*
- *NABARD and SIDBI to provide refinance for mFI linkage*

#### *v. Capacity building support for mFIs for*

- *training of the personnel of the mFIs*
- *building of database and systems requiring infrastructure and hardware*
- *start-up capital / capital funds*
- *equity and*
- *meeting operational deficits for the initial years*

#### *vi. Recommended setting up of Microfinance Development Fund [mFDF] with NABARD*

- *start up contribution of Rs.100 crore from GOI*
- *annual contribution from profits by RBI and NABARD*
- *assistance to mFIs, SROs, banks and others*
- *allocations from government sponsored poverty alleviation programmes*

*vii. Inter -agency coordination*

- *RBI to issue instructions to include select mFIs [SROs when formed ]in DCC and SLBC*
- *RBI to constitute a National Level Standing Committee with representatives from governments, banks, Association of mFIs/SROs, NABARD, SIDBI and RMK*

*viii. Coverage of mFI loans under Miscellaneous Loans Recovery Act*

*ix. Popularisation of mF through academics, publications, fellowship etc. RBI and NABARD to support initiatives in data building*