



MICROFINANCE, MICROCREDIT AND SHGs- NABARD's INITIATIVES

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MICRO FINANCE & MICRO CREDIT

- MF IS A SHORT TERM OF MICRO FINANCIAL SERVICES.
 - Includes the entire range of financial services.
 - Opportunity to husband small saving, take loan, remit money, convert assets into cash through pledging, mortgaging, etc.
 - Access to hire-purchase facility, leasing, insurance, etc. fall within its purview. It involves very small deposits and loans – in common parlance.
 - Thus, micro credit is a part of micro finance.



MICRO FINANCE & SHGs

- One third of rural people are not served by banks.
- They are considered, individually, as unbankable due to lack of collateral security.
- With innovative savings & loan products – considered bankable.
- The innovative routes are through mFIs and SHGs.



MICRO FINANCE & SHGs

- mFIs mobilise savings and extend micro credit.
- Banks open deposit accounts of these mFIs and also extend loans to meet the shortfall in their lending program.
- *Result : the poor remain mostly dependent on mFIs.*



MICRO FINANCE & SHGs

- SHGs – banks open their deposit accounts and provide credit as a multiple of the group fund.
- *Result : It leads to empowerment of the poor people. After sometime, SHGs need no external support to continue with their activities.*



EVOLUTION OF SHGs IN INDIA

- Banking rests on collaterals for giving loan.
- Poor cannot give collaterals.
- They remained outside the purview of banks.
- For overall economic development, the grass root level economy can't be ignored.
- Therefore, a way out to provide the poor with savings and credit services from the formal banking sector was evolved.



EVOLUTION OF SHGs IN INDIA

- Asian & Pacific Regional Agricultural Credit Association at its 5th GA held in Bangkok in 1984 and Kathmandu in 1986 signed among its members to study the existing SHGs of the rural poor – to initiate a project to link them.
- India set up the Task Force headed by Add. Sec., MoA, GoI as its Chairman.
- NABARD led the team. Presented draft report at 8th Executive Committee Session of APRACA at N. Delhi in 1987.



EVOLUTION OF SHGs IN INDIA

- Published the report in 1989.
- Launched Pilot Project for linking 500 groups of SHGs in 1992.
- In 1996 (KC), RBI directed banks to include linking of SHG as its mainstream activity.
- In 1998, GoI awarded a national priority through its recognition in Union Budget 1998-99.



SHGs LINKAGE MODELS ADOPTED

- ✓ Model I – SHGs formed and financed by banks.
- ✓ Model II – SHGs formed by NGOs and formal agencies, but directly financed by bank.
- ✓ Model III - SHGs financed by banks using NGOs and other agencies as financial intermediaries.

NABARD OFFER THE FOLLOWING TRAINING

1. Sensitisation program for branch managers/field officers on SHG Bank Linkage (2 days)
2. Training for bankers to link and upscale SHG Linkage Process (3 days).
3. Program on Sustainable SHG Bank Linkage (3 days).
4. Workshop cum Training program for senior bankers on SHG Bank Linkage (2 days).
5. Training Program for banks for promotion of SHGs (5 days).
6. Training Program for branch Staff (1-2 days).

NABARD OFFER THE FOLLOWING TRAINING

7. Field visit to SHGs for BLBC members (half day)
8. Workshop on SHG Bank linkage for small & medium NOGs.
9. Training Program for Chief Executive Officers of NGOs (2 days).
10. Training program for Animators on promotion and nurturing of SHGs (5 days).
11. Trainers' Training Program for faculty members of banks (5 days).

NABARD OFFER THE FOLLOWING TRAINING

12. **Participative Program for District Level Government Officers (1- 2 days).**
13. **Program for Operational Functionaries (2 days).**
14. **Exposure program on microFinance and SHG for Senior IAS Officers (3 days).**
15. **Training program for elected members of Panchayati Raj Institutions (2 days).**
16. **Orientation training program for leaders/members of SHGs (2 days).**
17. **Advanced training program for leaders /members of SHGs.**

NABARD OFFER MEDP

1. NABARD also offers 'Micro Enterprise Development Programme (MEDP)' to matured Self Help Groups members/leaders to facilitate in setting up of enterprises:

Course Contents :

- Technical skills in proper running of the activity selected.
- Some basic entrepreneurship inputs and enterprise management.
- Aspects concerning the marketing of the products.

2. SELF HELP PROMOTING INSTITUTION (SHPI)

- Three NGOs have been granted SHPI status in the State of Meghalaya viz. (i) New Rompa Mebit Club, W.G. Hills, (ii) BAKDIL, Tura and (iii) FMA-OUWC, Khasi Hills.

3. Joint Liability Groups.

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1. SGSY is a holistic Scheme covering all aspects of self employment –
 1. Organisation of the poor into SHGs.
 2. Training
 3. Credit
 4. Technology
 5. Infrastructure
 6. Marketing.
- Fund – Centre : State contribution 75:25

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The Scheme aims at

1. Establishing large number of micro enterprises in rural areas.
2. Target poor people below poverty line. It formed the base.

The Objective is

1. To bring the assisted families above poverty line by ensuring appreciable sustained level of income over a period of time(3 yrs.).
2. Organise the rural poor in SHGs, gives training, capacity building and provision of income generating assets.
3. Empowerment of rural poor & improve bargaining power.

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The Objective is

4. Providing the poor income generating assets through a mix of bank credit and Government Subsidy.

Role of Banker

- 1) One of the three members in selecting BPL families to be assisted under the scheme (BDO, Bankers and Sarpanch).
- 2) Banker can promote the groups.
- 3) Banker may extend credit facilities to eligible individual Swarozgaris where formation of SHGs has not taken.
- 4) Bank may evolve and adopt their own appraisal norms for their branches before sanction of loans.

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Grading of SGSY for Bank Credit

Stage II – Grading at the time of sanction of RF.

- 1) Period of existence of the group – 6 months.
- 2) Degree of affinity and homogeneity in the group.
- 3) Regularity in group meeting.
- 4) High level of members' attendance in meetings.
- 5) Extending loans out of own savings mobilised.
- 6) Democratic decision making.
- 7) Regularity and quality of record & books keepings.
- 8) Regularity in repayment of loans given.
- 9) Members undergone training on group functioning.

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Grading of SGSY for Bank Credit

Stage III – Grading Before sanctioning of HVIGAL.

- 1) Satisfactory operations on the RF Limit.
- 2) Degree of rotation of such funds within the group.
- 3) Loan repayment performance of members.
- 4) Loan repayment performance of the group to bank.
- 5) % of no. of loan extended out of RF for IGA.
- 6) Satisfactory creation of assets and benefits accruing.
- 7) Adequate experience & skill level for IGA proposed.
- 8) Adequacy of the training under gone by the members.
- 9) Clarity among members about commercial & financial aspects of the group activity.

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Grading of SGSY for Bank Credit

Stage III – Grading Before sanctioning of HVIGAL.

- 10) Satisfactory and continued growth of own savings, etc.
- 11) Awareness about overall financial position of group among the members.
- 12) Evidence of exertion of group pressure in enforcing the accepted group functioning norms or the bye laws.
- 13) Degree of dependence on external agencies/NGOs/animators for running the affairs of the group including writing of books of accounts and records.

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REVOLVING FUND

- SGSY group in existence for 6 months at least and demonstrated the potential of a viable group is eligible to receive RF of Rs. 25,000.00 from banks **as cash credit.**
- Of which, Rs.10,000.00 comes from DRDA.
- Bank may charge interest only on the sum exceeding Rs. 10,000.00.

Purpose of Revolving Fund

- To augment the group corpus.
- To enable the larger number of members to avail loan.

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Purpose of Revolving Fund

- To facilitate increase in the per capita loan available to the members.
- RF imparts credit discipline and financial management skills to the members so that they become credit worthy.
- SHGs that have demonstrated their successful existence, will receive assistance for economic activities under the scheme.

Lending Norms

- Under SGSY, loans may be given to individual swarozgaris or to SGSY group for IGA.

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Lending Norms

- In case of SGSY groups the assistance may be extended to individuals in the group or to all members in the group as a whole.
- The size of loan under the scheme would depend on the nature of project.
- There is no investment ceiling other than the unit cost.
- The loans under the scheme would be **composite loan** comprising of Term Loan and Working Capital.
- The loan components and the admissible subsidy together would be equal to total project cost.
- Banks may follow the model project.
- Under financing should be avoided.

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Lending Norms

- Swarozgaris will be given full amount of loan and subsidy and they will have the freedom to procure the assets themselves.
- Disbursement up to Rs. 10,000.00 under ISB sector may be made in cash where a number of items are to be bought.
- **Emphasis** is laid on **multiple dose of assistance**.
- Subsidy entitlement for all does taken together should not exceed the limit prescribed for that category.
- **Loans** will carry interest as per the directives on interest rates issued by RBI from time to time.
- All loans under SGSY will be treated as priority sector lending.
- Loans applications should be disposed of within 15 days, but not later than one month from the date of receipt.
- BM may be vested with adequate discretionary power to sanction.

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Lending Norms (*Assistance to IRDP borrowers*)

- IRDP borrowers may be considered for assistance under SGSY.
- Credit may be extended by bank to **non-wilful defaulter** owing dues up to Rs.5000.00 under IRDP.
- Subsidy available to the existing beneficiaries would be restricted the maximum ceiling prescribed for the category less the amount already availed by the borrower under IRDP.

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INSURANCE COVER

- Insurance cover is available for assets/live stock bought out of the loan.
- Swarozgaris are covered under Group Insurance Scheme.

SECURITY NORMS

- Individual loan \geq Rs. 50000.00 and Group loan \geq Rs.3 lakhs, the assets created out of bank loan would be hypothecated to the bank as primary security
- In case of immovable assets mortgage of land may be obtained.
- For all individual loan $<$ Rs.50000.00 and group loan $<$ Rs. 3 lakhs in addition to primary security suitable margin money/other collateral security in a suitable form may be obtained.

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SUBSIDY

- Uniform subsidy at 30% of the project cost, subject to a maximum of Rs. 7500.00.
- For SC/ST will be uniform at 50% of the project cost, subject to a maximum of Rs.10,000.00.
- For group SGSY the subsidy would be 50% of the project cost, subject to a ceiling of Rs.1.25 lakhs.
- No monetary limit on subsidy for irrigation projects.
- Subsidy under SGSY will be back ended.
- The availability of the benefit of subsidy to swarozgaris would be **contingent** on the proper utilisation of loans, prompt repayment, maintaining the asset in good conditions.

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SUBSIDY

- The procedure for operation of SRF accounts of the SGSY in paragraph 4.17 may be followed.
- DRDAs should open SB account with the principal participating bank branches for administration of subsidy.
- These account are to be reconciled every three months and they will be subject to annual audit.

POST CREDIT FOLLOW UP

- Loan Pass Book in regional language may be issued containing all the details of the loan disbursed.

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POST CREDIT FOLLOW UP

- Branch Manager should ensure that all columns in the pass book are filled at appropriate time.
- Non public working day may be observed to attend to the problems of the Swarozgaris.
- Bank should ensure that quality assets have been procured through proper monitoring & verification.
- Bank should obtain necessary documents relating to acquisition of assets.
- Non procurement of assets by the Swarozgaris inspite of reasonable time and opportunity, bank shall be free to cancel the loan and recover the money.

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POST CREDIT FOLLOW UP

- Legal proceeding (civil/criminal) wherever necessary may be initiated.

RISK FUND FOR CONSUMPTION CREDIT

- 1 percent of SGSY funds may be set aside towards risk fund.
- Consumption loans not exceeding Rs.2000.00 per swarozgaris would be provided by the banks.
- Assistance to the extent of 10% of the total consumption loans disbursed by banks to the SGSY swarozgaris during the year would be provided out of the Risk Fund.

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REPAYMENT OF Loan

- All SGSY loan are term loan – 5 yrs. minimum.
- Repayment installment is fixed as per unit cost fixed by NABARD/Dist. SGSY Committee.
- There will be moratorium on repayment of loans during the gestation period.
- Repayment installment should not be > 50 % of the incremental net income expected from the project.
- Swarozgaris will not be entitled for any benefit of subsidy if the loan is fully repaid before the prescribed lock-in period.
- The repayment period varies 5, 7 and 9 years and corresponding lock-in period would be 3, 4 and 5 years.
- If the loan is fully repaid before the currency period, he will be entitled only to pro-rata subsidy.

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RECOVERY

- Prompt recovery is necessary for the success of the programme.
- Measures like personal contact, organisation of joint recovery camps with District Administration, legal action, etc.
- The process of forfeiture of subsidy for adjustment against dues may be taken up.
- Adjustment of subsidy may be taken up as a last resort.
- Bank may engage NGO or individual as monitor cum recovery facilitator on a commission basis.
- 0.5 % may be charged against SGSY members to meet processing cum monitoring.

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RECOVERY

- Prompt repayment at the Swarozgari's level, will entitle him/her to waiver of the 0.5% processing cum monitoring fee.

REFINANCE OF SGSY LOANS

- BANKS ARE ELIGIBLE FOR REFINANCE FROM NABARD UNDER AUTOMATIC REFINANCE FACILITY (ARF).

THANKS

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