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Status of Micro Finance in India

**National Bank for Agriculture & Rural Development
Meghalaya Regional Office**

“WE MAKE BANKING POSSIBLE WITH THE LAST , THE LOST AND THE LEAST”



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Micro Finance Approaches

- ✔ **SHG –Bank Linkage - Dominant Model**
- ✔ **Financing through MFIs - Emerging Model**



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SHG-Bank Linkage Programme

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The Self Help Group (SHG). . What is it ?

- A homogeneous group of about 15 to 20
- Every member to save a small amount regularly. Pooled savings kept in a savings bank account in SHG's name
 - ✂ transaction costs of both the poor and bank reduced !
- SHG to use pooled thrift to give interest bearing loans to members – decisions taken in group meetings
 - ✂ Every member learns prioritisation and financial discipline. Their capacities to think and handle larger resources improves!
- Depending on the SHG's maturity, bank gives loan to the SHG as a multiple of the pooled savings. Bank loan added to the SHG kitty.
 - ✂ Adequate & sustained access to financial services!



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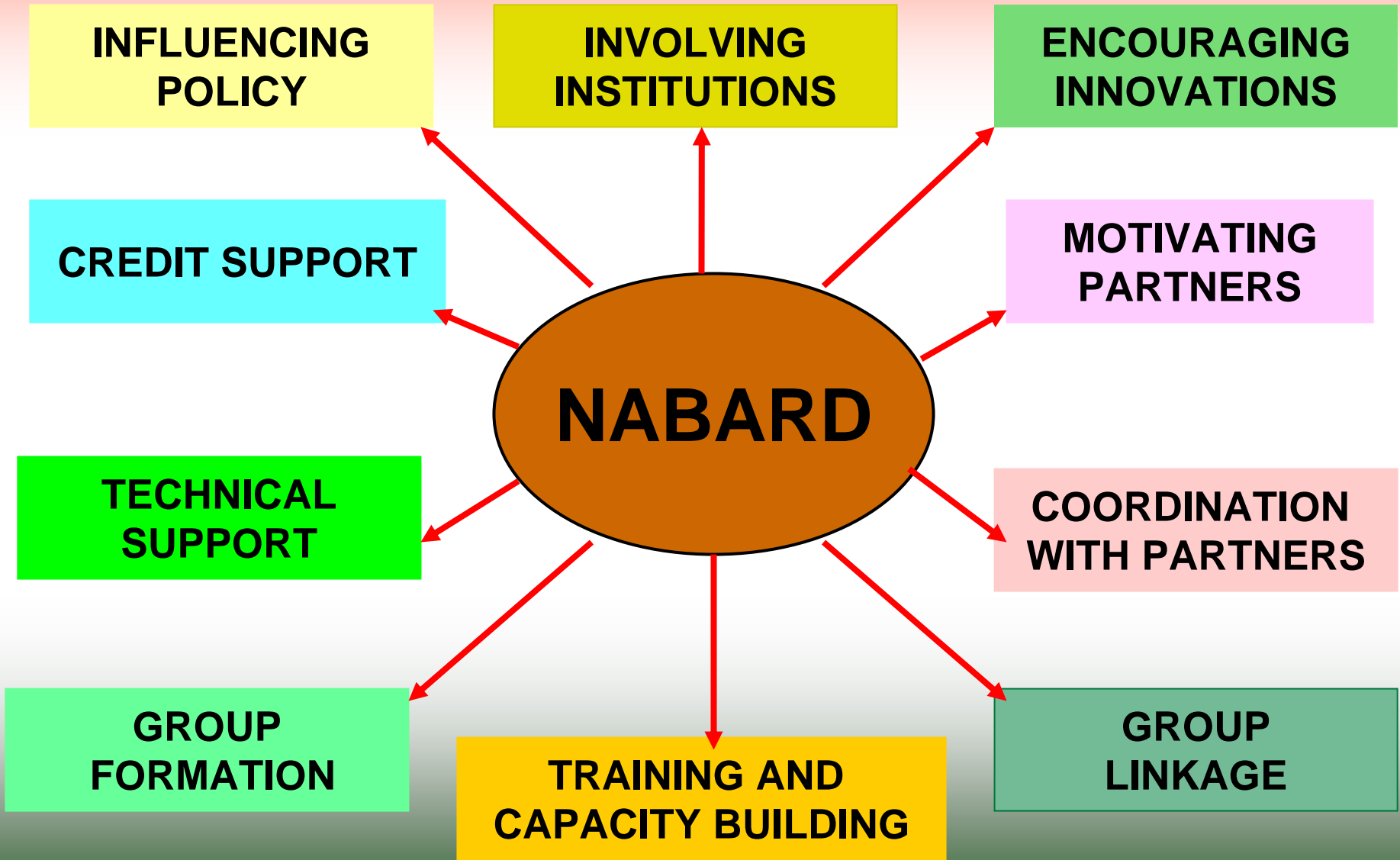
Design features of SHGs

- ✔ **Enables exclusion of rich**
- ✔ **Self-selection**
- ✔ **Focus on women**
- ✔ **Saving first and credit later**
- ✔ **Intra group appraisal systems and prioritization:**
- ✔ **Credit rationing**
- ✔ **Shorter repayment terms**
- ✔ **Market rates of interest**
- ✔ **Progressive lending**



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NABARD and microFinance



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SHG-Bank Linkage Models

MODEL-I

SHGs formed and financed by Banks – 20%

MODEL-II

NGOs act as Facilitators – SHGs financed directly – 74%

MODEL-III

SHGs financed by Banks using NGOs as Financial Intermediaries – 6%

INNOVATIVE PROJECTS

- SETTING UP OF GRAIN BANKS
- PROJECT ON PROCESSOR CARDS
- PROJECT ON EGRAMA
- JOINT LIABILITY GROUPS
- SETTING UP OF COMPUTER MUNSHI
- MICRO-ENTERPRISE PROMOTION BY SHGs



SCHEME OF PROVIDING TECHNOLOGY SUPPORT TO NGOs

- Grant Assistance upto Rs.50,000
- Purchase of PC
- NGO should have completed 3 years
- Should have promoted minimum 500 SHGs
- Should not have been black-listed



MICROENTERPRISE DEVELOPMENT PROGRAMME FOR MATURED SHGs

WHO CAN SPONSOR

- NGO or SHPI which has promoted Groups
- Banks who have financed Groups
- SHG members themselves that have been credit linked

SUPPORT FROM NABARD

- Rs.78 per participant per day
- Provides key inputs

DURATION

3 – 13 Days

SCHEME OF CAPITAL / EQUITY SUPPORT TO MICROFINANCE INSTITUTIONS

- CAPITAL SUPPORT
- Rs.25 LAKHS TO Rs.1 CRORE



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NABARD manpower building approaches ...

- **Bankers**

6 different training and exposure programmes for CEOs, Directors on Boards, middle management, branch managers, field staff

- **NGOs**

3 different training and exposure programmes for CEOs and field staff, Refresher programmes

- **Govt officials**

3 different training and exposure programmes for senior bureaucrats, middle level operational functionaries, and field staff

- **Trainers**

3 different programmes to equip trainers from Banks, Government, and NGOs.



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Progress

As at.....	<u>Mar '93</u>	<u>Mar '96</u>	<u>Mar '05</u>	<u>Mar '06</u>
• SHGs linked	255	4,757	16,18,456	22,38,565
• % women's groups	70	74	90	90
• Families assisted	5,100	80,000	24.3 m	32.9 m
• Banks participating	14	95	573	545
• SHG promoting Partners	32	127	4323	4896
• Districts covered	26	157	572	583
• Aggregate bank loans handled (US\$ million)	0.06	1.24	1604	2533

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Physical and Financial Support

(Cumulative as on 31 March 2006)

Major Purpose	Physical	Financial (Rs crore)
Training and Capacity Building	13,00,725	17.57
Promotion of SHGs through NGOs (1515)	1,64,550	25.65
RRBs as SHPIs(93)*	41,190	3.34
Cooperatives as SHPIs (69)	34,810	3.16
FCs as SHPIs (1,012)	12,659	0.55
IRV as SHPIs (757)	8,800	1.30
Revolving Fund Assistance to mFIs/NGOs	32	27.32

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Progress as on 31 March 2006

Year	Credit Linked SHGs		Cumulative credit linked SHGs	Bank Loan (2005-06) In Rs. Crore	Bank Loan (Cumulative) In Rs. Crore
	Repeat	New			
2003-04	1,71,669	3,61,731	10,79,091	1,856	3,904
2004-05	2,58,092 (50)	5,39,365 (49)	16,18,456 (50)	2,994 (62)	6,898 (57)
2005-06	3,44,502 (34)	6,20,109 (15)	22,38,565 (38)	4,499 (50)	11,398 (65)

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Progress ...contd

Agency wise share

Agency	2005-06		Cumulative sa on 31 March 2006	
	SHGs	Percentage to Total	SHGs	Percentage to Total
Commercial Banks	3,44,838	56	11,88,311	53
RRBs	1,76,178	28	7,40,024	33
Co-op Banks	99,093	16	3,10,230	14
Total	6,20,109	100	22,38,565	100



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Area of Concern

Region wise share

Region	SHGs credit linked during 2000-01		SHGs credit linked during 2005-06	
	During 2000-2001	Cumulative as on 31/03/01	During 2005-2006	Cumulative as on 31/03/06
North	4,221 (3.0)	9,012 (3.4)	47,079 (7.6)	1,33,057 (5.9)
North East	160 (0.1)	477 (0.2)	28,279 (4.5)	62,517 (2.8)
East	11,057 (7.9)	22,252 (8.4)	1,28,723 (21.0)	3,94,351 (17.6)
Centre	8,631 (6.2)	28,851 (10.9)	70,550 (11.4)	2,67,915 (12.0)
West	6,911 (4.9)	15,543 (5.9)	69,988 (11.3)	1,66,254 (7.4)
South	1,09,218 (77.9)	1,87,690 (71.2)	2,75,490 (44.4)	12,14,431 (54.3)
Total	6,20,109 (100)	2,63,825 (100)	6,20,109 (100)	22,38,565 (100)

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Summary of data collected from CBs, RRBs and DCCBs at the behest of Parliamentary Standing Committee as on March 2005

- ✔ **1.44 million groups had loan outstanding as against 2.03 million groups cumulatively financed by all agencies**
- ✔ **The SHG portfolio constituted 1.13% of the priority sector portfolio of the banks.**
- ✔ **Average loan outstanding to an SHG is Rs.32,487 in Commercial Banks, Rs.25,406 in RRBs and Rs.19,313 in Co-operatives**
- ✔ **On an average a bank branch had about 35 SHG accounts and the average Loan outstanding of the SHG portfolio was Rs.10.10 lac.**
- ✔ **On an average it took around 9 days to sanction SHG loan by the bank branches.**



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Summary of data collected from CBs, RRBs and DCCBs at the behest of Parliamentary Standing Committee as on March 2005

- ✔ **The on-time recovery under SHG – Bank Linkage Programme as on June 2005 was :**
 - ✔ **Commercial banks 89.66%**
 - ✔ **RRBs 87.14 %**
 - ✔ **Cooperative Banks 86.04 %**
- ✔ **The on-time recoveries in the case of major commercial banks was well above 90%.**

- ✔ **The net NPA under SHG portfolio was 0.93% in case of**
 - ✔ **Commercial banks 0.93%**
 - ✔ **RRBs 2.32 %**
 - ✔ **Cooperative banks 2.14 %**



Legal Forms of MFIs

a.) NGO mFIs

Societies Registration Act, 1860 or similar Provincial Acts and/ or Indian Trust Act, 1882

b.) Non-profit Companies

Section 25 of the Companies Act, 1956

c.) Cooperative MFIs

Cooperative Societies Acts of the State & Central Governments

d.) Non-Banking Financial Companies (NBFCs)

Indian Companies Act, 1956

Reserve Bank of India Act, 1934

(MFIs are unregulated excepting NBFC MFIs)



Status & Policy Environment for MFIs

- ✔ **MFIs in India were initially driven by Apex Institutions & Donor agencies**
- ✔ **NABARD alone has provided RFA to 32 MFIs to the tune of Rs.273.2 million**
- ✔ **About 800 MFIs are operating in the country. Majority of MFIs are NGO MFIs with less than 1000 clients**
- ✔ **In 2000, Commercial Banks were advised to provide funds to MFIs for onlending to their clients through different models like SHG, Gramin model, JLG & individual lending**
- ✔ **About 150 to 200 MFIs are accessing funds from commercial Banks. The outreach of MFIs is estimated to be 2 million families & annual disbursement of around Rs.5,000 million**



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Exposure to Commercial Banks as on March 2006

(Rs.crore)

Bank	No. of MFIs	Loan O/s.
ICICI Bank	100	2350 *
HDFC Bank		250
UTI Bank	40	103
ABN AMRO Bank	19	87
ING Vysya Bank	19	61
Standard Chartered Bank	12	50
HSBC	8	15
Rishikulya Grameen Bank, Ganjam	3	6
Some Public Sector banks	9	10
Total		1991 **

* Figure for ICICI includes all microfinance lending

** Includes only partnership lending component for ICICI Bank
(Assumed to be 60% of total microfinance lending).

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Initiatives to Support MFIs

- ✔ **MFDF redesignated as Micro Finance Development & Equity Fund (MFDEF) with enhanced corpus of Rs.200 Crore for promoting the sector through grant for capacity building support, debt, equity,etc.**
- ✔ **NABARD provides refinance to Banks at concessional rates of interest in order to encourage Bank – MFI linkage**
- ✔ **A scheme for rating is launched by NABARD to enable qualifying and deserving MFIs to obtain loans from banks**
- ✔ **Capital and Equity support to Micro Finance Organisations and NBFC – MFIs respectively to enable them to leverage funds from other financing agencies**
- ✔ **A legislative framework is being evolved for orderly growth of the MFI sector which is currently unregulated.**



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Thankyou

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