



CAIIB Module-D

CAIIB Rural Banking



CAIIB Rural Banking Module D -Problems And Prospects In Rural Banking

No. of Unit	Unit Name
Unit 1	Role of Banking – Emerging Trends in Rural Banking Characteristics of Rural Society
Unit 2	Role of Technology in Financial Inclusion and Rural Development
Unit 3	Financing Poor as Bankable Opportunities: Micro Credit and Self Help Groups

CAIIB Rural Banking Module D Unit 1-Role of Banking – Emerging Trends in Rural Banking Characteristics of Rural Society

Improvement in availability of banking outlets

- The number of banking outlets has considerably increased with banks opening ATMs and the RBI permitting banks to establish the outlets of Business Correspondents. As per the data uploaded in Jan Dhan Darshak app, in relation to the record of the banking outlets mapped by the banks across the country, there are 1.66 lakh branches, 4.35 lakh BCs and 2.07 lakhs ATMs.
- PMJDY accounts with banks have grown three-fold from 14.72 crore in March, 2015 to 43.04 crore as on August, 2021. About 55 per cent of Jan Dhan account holders are women and about 67 per cent accounts are in rural and semi urban areas. The aggregate deposits under PMJDY accounts stood at 1.46 lakh crore and the deposits in these accounts have increased 6.3 time over the six years period (i.e., between August, 2015 and August, 2021).

Areas Of Concern And Actions Pursued

Population Served

- To promote financial inclusion and to extend the banking network in unbanked areas, general permission has been granted by Reserve Bank of India (RBI) to domestic Scheduled Commercial Banks including Public Sector Banks (excluding Regional Rural Banks) to open branches at any place in the country, without seeking prior approval of RBI in each case, subject to at least 25 percent of the total number of branches opened during a financial year being opened in unbanked rural (Tier 5 and Tier 6) centers.
- RBI has also specified that the total number of branches opened in Tier 1 centers (population 100,000 and above) during the financial year cannot exceed the total number of branches opened in Tier 2 to Tier 6 centers (population up to 99,999) and all centers in the North Eastern States and Sikkim.

High Transaction Cost

- Commercial banks face high transaction cost in their rural branches. The real issues in rural banking of commercial banks are lack of infrastructure, reluctance of staff to serve in remote rural areas, large number of accounts dealing in small amounts, difficulty in getting financial information on rural borrowers, leading to some amount of uncertainty in the minds of the bankers and lack of security, for carrying cash in remote areas, etc.
- The ICT can play an important role by increasing effective access and improving delivery and governance in banking services. Bharat Interface for Money (BHIM) developed by National Payment Corporation of India (NPCI) enables fast, secure, reliable cashless payment, through the Mobile Phone. It is interoperable with other Unified Payment Interface applications. BHIM application is currently available on Android. The BHIM-Aadhaar digital payment platform, is specially designed to suit the rural customers.

Cost of Credit:

- As regards cost of credit, for most of the period, the administered interest rate regime was applicable for bank lending and this included concessional terms for priority sector. Currently, all interest rates (except loans to weaker sections) on bank advances including in rural areas are deregulated.
- According to recent survey of NSSO, in the rural segment of India, about 34 per cent of all households have acquired credit from non-institutional sources, while the institutional or formal sources have advanced credit to 66 per cent of rural households.

The survey as well as other studies had highlighted the following issues:

- The credit-deposit ratio obtained across the states/regions revealed that despite the intermediation of banks, the ratio continues to be low, in the rural area.
- The all-in costs of credit from banks, after factoring in timeliness, transaction-costs and access, appear high for agriculture relative to private corporate sector,
- The performance of some of the public sector banks in rural and agricultural lending is also inadequate; the performance of most of the private and foreign banks is even lower that of the public sector banks, despite considerable expansion of the scope of priority sector lending by RBI.
- Credit-system in rural areas finds it difficult to cope with the rising demands of commercialized agriculture.
- Although there has been notable progress in micro finance, it is mostly confined to the states with fairly well-developed banking system. Further, the cost of credit, at around 20 to 30 per cent, also appears high.

Present Focus On Banking In Rural Areas

Present policies regarding rural banking are based on the Report of the **Committee on Financial Inclusion in India (Chairman Dr. C. Rangarajan)**, 2008. The Report viewed financial inclusion as a comprehensive and holistic process of ensuring access to

financial services and timely and adequate credit, particularly by vulnerable groups, such as weaker sections and low-income groups, at an affordable cost.

According to the Report, the overall strategy for building an inclusive financial sector should be based on:

- Effecting improvements within the existing formal credit delivery mechanism;
 - Suggesting measures for improving credit absorption capacity, especially, amongst marginal and sub-marginal farmers and poor non-cultivator households;
 - Evolving new models for effective outreach; and
 - Leveraging on technology-based solutions.
- Keeping in view the enormity of the task involved, the Committee recommended the setting up of a mission mode **National Rural Financial Inclusion Plan (NRFIP)**, with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012, and the remaining by 2015.
 - The Committee has also recommended that the Government should constitute a **National Mission on Financial Inclusion (NaMFI)** comprising representatives of all stakeholders, for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives.

Inclusive Banking Activities

Strengthening of Institutional Mechanism

- RBI has set up **Financial Stability and Development Council (FSDC)**, which has an exclusive mandate for financial inclusion and financial literacy. A separate Technical Group on financial inclusion and financial literacy, under the Chairmanship of a Deputy Governor, has been set up under the aegis of FSDC.
- In order to spearhead efforts towards greater financial inclusion, RBI has constituted a **Financial Inclusion Advisory Committee (FIAC)** under the Chairmanship of Deputy Governor.

Revamping of Lead Bank Scheme

- A Committee of Executive Directors of the Reserve Bank was constituted to study the efficacy of the Lead Bank Scheme (LBS) and suggest measures for its improvement.
- A Steering Sub-committee of SLBC/ UT Level Bankers Committee (UTLBC) has been constituted in all the states/UTs. Action points pertaining to alignment of corporate business targets for branches, blocks, districts and states with an Annual Credit Plan (ACP), standardization of information/data, and management of data flow under the LBS are under various stages of implementation.

Assignment of Lead Bank Responsibility

- Under the LBS, one bank in each district is assigned the leadership role and acts as a consortium leader to co-ordinate the efforts of the banks in that district, particularly in matters such as branch expansion and credit planning to meet the credit needs of the district.

Financial Inclusion Plans (FIPs)

- In order to have a planned and structured approach to financial inclusion, banks have been advised to prepare Board-approved Financial Inclusion Plans (FIPs).
- These FIPs capture banks' achievements on various parameters such as the number of outlets (branches and BCs), Basic Savings Bank Deposit Accounts (BSBDAs), overdraft facilities, KCCs and General Credit Card (GCC) accounts and transactions in ICT-BC accounts.

Penetration of Banking Services

- The use of information technology (IT) and intermediaries has made it possible to increase outreach, scale and depth of banking services at an affordable cost.
- SLBC convenor banks were advised that while opening new banking outlets in Unbanked Rural Centers (URCs) in tier 5 and 6 centers, banks should give priority to URCs having population above 5,000 (i.e., tier-5 centres).
- Further, SLBC convenor banks were advised to consider opening of a CBS enabled banking outlet or a part time banking outlet, in the villages with population less than 2,000 that still remain unbanked.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

- Financial inclusion in India has progressed substantially since the introduction of Pradhan Mantri Jan Dhan Yojana (PMJDY). According to Financial Inclusion Insights (FII – 2015), while ownership of bank accounts has increased to about 2/3rd of all adults in India, active use has increased to about 40 percent.

Aadhaar-Enabled Unified Payment Infrastructure

- A Taskforce on an Aadhaar-Enabled Unified Payment Infrastructure recommended increasing commissions to BCs, in order to make them profitable. This profitability is highly dependent on the volume of transactions per BC, and one can model scenarios where a UBI (universal basic income) can lead to increased financial inclusion through an increased number of transactions.

New Banking Entities Permitted in the Financial Inclusion Space

- RBI has granted approval to eligible entities to set up differentiated banks namely "Small Finance Banks" (SFBs) and "Payments Banks" to further the cause of financial inclusion in the country.
- SFBs are expected to enhance the supply of credit to small business units, small and marginal farmers, micro and small industries and other entities in the unorganized sector. The Payment Banks are expected to provide cost-efficient remittance services in a secured technology driven environment.

Role of Payment System in Promoting Financial Inclusion

- Considering the strong linkage between financial inclusion and the payment systems, RBI has taken several steps. Some of these include encouraging use of Mobile Banking, pre-paid instruments in the form of digital wallets and mobile wallets, operationalization of the Aadhaar Bridge Payment System (ABPS) and Aadhaar-Enabled Payment system (AEPS), etc.

Financial Literacy Centres (FLCs) / Rural Self Employment Training Institutes

- Banks in India have been mandated to set up FLCs for extending financial literacy. RBI is encouraging banks to set up CFLs (Centres for Financial Literacy) at the block level, on a pilot basis.
- The **Rural Self Employment Training Institutes (RSETIs)** have been set up by various banks all over the country at the district level. The key objective of RSETI is “Short term training and long-term hand holding with assistance to credit linkage for trainees”.

Direct Benefit Transfer and Aadhaar Seeding of accounts:

- An important driver for enhancing the demand side of financial inclusion is **Direct Benefit Transfer (DBT)**.
- It has the potential to be game changer. If entitlements under various state sponsored schemes starts directly flowing into the bank accounts of individuals under DBT mode, it can act as a catalyst to encourage saving habit leading to build up of investment and seed capital for availing productive credit.

National Strategy for financial inclusion – Plan for 2019-2024

- National Strategy for Financial Inclusion 2019-2024 has been prepared, under the aegis of the Financial Inclusion Advisory Committee, based on the inputs and suggestions from the Government of India and other financial sector regulators.
- The strategy envisages to make formal financial services available, accessible, and affordable to all the citizens, in a safe and transparent manner, to support inclusive and resilient multi-stakeholder led growth.
- It proposes forward looking recommendations to help achieve universal access to financial services through a bouquet of basic financial services leveraging on the BC Model, access to livelihood and skills development, financial literacy and education, customer protection and grievance redressal with effective co-ordination.

Financial Inclusion Index developed by RBI

- RBI has constructed a composite Financial Inclusion Index (FI-Index) to capture the extent of financial inclusion across the country. The FI-Index has been conceptualized as a comprehensive index incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with Government and respective sectoral regulators.

- The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion. The FI-Index comprises of three broad parameters (weights indicated in brackets) viz., Access (35%), Usage (45%), and Quality (20%) with each of these consisting of various dimensions. A unique feature of the Index is the Quality parameter which captures the quality aspect of financial inclusion as reflected by financial literacy, consumer protection, and inequalities and deficiencies in services.

CAIIB Rural Banking Module D Unit 2-Role of Technology in Financial Inclusion and Rural Development

Modern Management Of Agriculture – Possible Technological Components

The components for modern management of agriculture can be **remote sensing, geographical information system, data analysis, artificial intelligence and machine learning and internet of things.**

Remote Sensing

- Remote sensing made use of visible, near infrared and shortwave infrared sensors to form images of the earth's surface by detecting the solar radiation reflected from targets on the ground.
- In case of crop cultivation, remote satellite or drone- based imagery can assist in crop classification. The image sensing systems can be used for estimation of acreage under cultivation, arriving at production estimates, evaluation of crop losses, spread of disease, if any, in any region, monitoring bio-diversity, assessment of the impact of agro-ecology, etc.

Geographical Information System

- This allows for multiple data of varied detail to be graphically depicted on a map and thus, providing visual and other indicators to ease associated decision making.
- GIS tools and analytics can accurately depict the collection of data on, crop acreage, production, crop health, disease and also maintain geo-database of farmers.

Big Data Analytics, Internet of Things (IoT), Block Chain and Artificial Intelligence:

- Big data analytics provide opportunity to systemize the large amount of widely dispersed data.
- Government agricultural development schemes and programs viz. AGMARKNET/e-NAM, Soil Health Card, National Animal Disease Reporting

System (NADRS), Kisan Call Centre Database, DBT schemes and others, are already driving the need for adoption of Big Data Analytics in the agricultural sector.

Internet of Things in Agriculture

- The Internet of Things (coined by Kevin Ashton) is the interconnection via the internet of computing devices, embedded in everyday objects, enabling them to send and receive data.
- Various IT solution- provider companies/vendors have designed and supplied different platforms and software in the market for a digital solution to the problems faced in agriculture/ agri-business for automation, resource-management, etc. for the benefit of farmers.

Artificial Intelligence:

- Artificial Intelligence (AI) takes automation to another level, by incorporating analysis and learning on the basis of past and current data. Farmers can benefit not only from the direct on-farm applications of AI, but also from its use in the development of improved seeds, crop protection, and fertility products.

Machine Learning Technique

- The use of ICT by way of interactive communication with farmers, also creates opportunity for AI powered chat-bots. These can use machine learning techniques, understand natural language and interact with users in a personalized way, giving advice and recommendations on specific farm problems.
- Public Extension service centres, Krishi Vigyan Kendras (KVKs) and Agricultural Technology Management Agencies (ATMA) are all well positioned to be the nerve centres for AI applications.

Blockchain technology for agricultural value system

- The blockchain is a ledger of accounts and transactions that are written and stored by all participants. it facilitates the use of data-driven technologies to make farming smarter.

Benefits Of Usage Of Technology In Agriculture

- The application of IoT technology in agriculture can bring a social change in the rural society in as much as the farmers can gain insight from data, develop plans and manage and execute these plans independently, as also undertake course correction and revise plans as required.
- Crop planning, crop scheduling, etc., can be done by them without depending on the extension machinery of the state. It is possible from them to take better on-farm decisions such as the optimal time to plant, irrigate, protect or harvest their crops.
- With the increase in productivity and income there will be increase in GDP in agriculture.

- The state/ nation-wide monitoring can be possible by time series, and spatial data analysis and taking measures and such measures would facilitate ground water conservation, lowering of carbon footprint due to reduced energy consumption and prevention of fertilizer run off and soil erosion.

Progress of IOT In Indian Agriculture

- Satellite derived seasonal cropping pattern, experiments on yield estimation, estimation of net-sown crop area and agricultural drought assessment studies are conducted by **National Remote Sensing Centre of the Indian Space Research Organization**.
- **The Information Technology Research Academy (ITRA), Hyderabad** set up by the Ministry of Electronics and Information Technology, in consultation with the Indian Council of Agricultural Research (ICAR), had identified various areas for research purpose in respect of robotics, sensors, interpretation and use of sensor data.
- **The Indian Agriculture Research Institute (IARI) has formulated a collaborative research project entitled “SENSAGRI – SENSOR based Smart Agriculture”** - to develop indigenous prototype for Drone based crop and soil health monitoring system using Hyperspectral Remote Sensing (HRS) sensors, so as to be integrated with satellite-based technologies for large scale applications.
- Government is contemplating to position two of the important Public Extension Service Centres, viz Krishi Vigyan Kendras (KVKs) and Agricultural Technology Management Agencies (ATMA) in a big way for AI applications and for knowledge diffusion among India's vast farming community.
- The Department of Agriculture, Cooperation and Farmers' Welfare (DAC&FW) has already conceived proposal which envisaged that the information generated from Sensors could be provided on the phone of farmers as SMS or via mobile apps pre-loaded on their phone, and the collected data may be used for Big Data Analysis so as to create suitable Policies and Decision Support System (DSS).
- Farmers are provided all the relevant information relating to soil, crop and weather through web sites / portals as also through phones/app/mobiles through **Kisan Call Centre** – 18001801551.
- **National e-Governance Plan – Agriculture (NeGP-A)**: It aimed at bridging gap in communication by using technology. It provides an integrated approach to the delivery of services to the farming community, using ICT. Under NeGP-A, around 60 online services have been developed over the last few years and launched to provide ease of access and timely information to farmers.
- GOI launched the **Digital India Land Record Modernization Program** with a view to minimizing the scope of land or property disputes and to enhance transparency in land records.
- Infosys, Tata Consultancy Services, SkyMet and Indian Space Research Organization are in a partner ecosystem with Azure FarmBeats of Microsoft, enabling a rich ecosystem of agriculture technology, sensors, and data providers.

- The **SmartFarming4AP** was developed by the Government of Andhra Pradesh in partnership with Bill & Melinda Gates Foundation and Dalberg Advisors to solve some of the most pressing challenges faced by small and marginal farmers in the state.
- SatSure, a data analytics company has integrated satellite imagery, weather and big data/ IoT analytics with the agriculture sector to help farmers with financial security and crop insurance. Radio Monsoon (started by five researchers) aims to ensure safety among fishermen in south India.

Other Initiatives For Development Of Rural Areas

- GOI launched the **Digital India Land Record Modernization Program** with a view to minimizing the scope of land or property disputes and to enhance transparency in land records. With the digitization of land records and providing the facility to the banks for creating online charge can address many issues relating to agricultural credit. It can also help in reducing the instances of multiple or double financing on the same piece of land. This will also facilitate easy access to land records for extending hassle-free loans to farmers and in time.
- In April, 2020, a central sector scheme called **Survey of Villages and Mapping with Improved Technology in Village Areas (SVAMITVA)** was launched to promote a socio-economically empowered and self-reliant rural India by the Ministry of Panchayati Raj.
- In terms of the guidelines of the scheme, the Revenue Department/ Land Records Department will be the nodal department at the state level for carrying out the scheme with the support of State Panchayati Raj Department. The Survey of India shall work as the technology partner.
- The Scheme aims to provide an integrated property validation solution for rural India. The demarcation of rural abadi areas will be done using drone surveying technology. This will provide 'record of rights' to village household owners possessing houses in inhabited rural areas in villages which, in turn, will enable them to use their property as a financial asset for taking loans and other financial benefits from banks.

Financial Technology In Financial Inclusion Space

NABARD which is maintaining the Financial Inclusion Fund has taken a series of initiatives for leveraging technology in the Financial Inclusion landscape for furthering financial inclusion in the rural areas.

- **Migration to CBS:** The CBS platform is essential for providing digital banking services to remote rural areas. While commercial banks have adopted CBS on their own, NABARD has supported the weak RRBs and Rural Cooperative Banks (RCBs) to implement CBS.

- **Facilitating DBT:** The NABARD-initiated CBS project in RCBs, apart from improving productivity within their organizations, has also helped them to credit DBT seamlessly into the accounts of their customers.
- **Enabling technologies and initiatives:** NABARD supported the integration of CBS with CBS plus services, such as ATM, micro-ATM and Atal Pension Yojana.
- **The Bank Sakhi model,** which coopts the SHG members as BCAs of the banks was pioneered by NABARD in order to provide time-flexible, acceptable, trustworthy and dependable BC services.
- **Payment Acceptance Infrastructure:** To cover all the farmers with RuPay Kisan Credit (RKC) on mission mode for full coverage of KCC accounts, RRBs and RCBs were supported for Europay, Master Card, Visa (EMV) chip based RKC. Besides support to BCs/Bank Sakhis and branches for banking transactions, merchant channel transactions are also supported through the deployment of Pos/mPoS terminals in one lakh villages in Tier 3 to Tier 6 centres.
- **Onboarding for regulatory requirements:** Support extended to rural banks for meeting regulatory requirements such as C-KYC and Aadhaar User Agency or KYC User Agency. Further StCBs and RRBs have been supported for the opening of Aadhaar Enrollment and Update Centres so that they can provide Aadhaar related services to the people.
- **Connectivity for banking transactions:** To solve the issues of poor telecom connectivity and non-availability of continuous power in remote areas, support for solar power VSATs, etc. was provided for fixed customer service points in Sub Service Areas.
- **Digitizing Self- Help Groups:** With a view to creating a digital ecosystem to provide an end to-end solution to the Self-Help Groups-Bank Linkage Program to help standardize books of accounts and bring transparency and regularity in operation NABARD has launched e-Shakti project. Under this initiative 12.3 lakh SHGs were onboarded covering 140.9 lakh members spread over 1.7 lakh villages.

CAIIB Rural Banking Module D Unit 3-Financing Poor as Bankable Opportunities: Micro Credit and Self Help Groups

Microcredit Delivery Models

Grameen Bank

- Under Grameen Bank model, a bank unit is set up with a Field Manager and a number of bank workers, covering an area of about 15 to 22 villages. The manager and workers start by visiting villages to familiarize themselves with the local milieu, in which, they will be operating and identify prospective clientele, as well as explain the purpose, functions, and mode of operation of the bank to the local population.
- Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see

if the members are conforming to rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks, other members of the group become eligible themselves for a loan.

Village banks

- Village banks are community-based credit and savings associations. They typically consist of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities.
- This model is widely adopted and implemented by FINCA in Latin America and the Caribbean, and a few other countries in Africa and Asia.

Group Model

- The Group model's philosophy lies in the fact that shortcomings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group of such individuals. One example of the Group Model is "Joint Liability". When a group takes out a loan, they are jointly liable to repay the loan when one of the group's members defaults on the repayments.

Intermediary model of credit lending

- The intermediary plays a critical role of generating credit awareness and education among the borrowers. These activities are geared towards raising the credit worthiness of the borrowers to a level sufficient enough to make them attractive to the lenders. Individual lenders, NGO, micro enterprise /micro credit programs and commercial banks could act as intermediaries.

NGO Model

- NGOs have emerged as a key player in the field of micro credit. NGOs have been active in starting and participating in micro credit programs.

Rotating Savings and Credit Associations Model

- Rotating savings and credit associations are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle. For example, a group of 12 persons may contribute Rs. 100 per month for 12 months.
- The Rs. 1,200 collected each month is given to one or two members according to their needs. Thus, a member will 'lend' money to other members through his regular monthly contributions.

Small Business Model

- Policies have generally focused on direct interventions in the form of supporting systems such as training, technical advice, management principles, etc.; and indirect interventions in the form of an enabling policy and market environment.

Microcredit has been provided to SMEs directly, or as a part of a larger enterprise development program, along with other inputs.

Bank guarantees Model

- Bank guarantee is used to obtain a loan from a commercial bank. Loans obtained may be given directly to an individual, or they may be given to a self-formed group. Guaranteed funds may be used for various purposes, including loan recovery and insurance claims.

SHG- Bank Linkage Program Approach

A Self-Help Group is usually formed by 10 to 20 people from a homogeneous class who come together for addressing their common problems.

The financial scheme under this program is followed by the following principles:

- Saving first and no credit without saving
- Savings as partial collateral
- Bank loan to SHGs for on-lending to members
- Credit decision or on-lending to SHG members to be decided by the SHG
- Interest rates and other terms and conditions for loans to members to be decided by the SHG
- Joint liability as a substitute of physical collateral
- Small loans to begin with and difficult credit cycles clearly defined.

Micro Finance Institutions (MFIS)

- Microfinance Institutions in India emerged in the late 1980s, in response to the gap in availability of banking services for the unserved and underserved rural population.
- Micro Finance Institutions (MFIs) act as an important conduit for extending financial services to the microfinance sector in the country, by raising resources from banks and other institutions and extending loans to individuals or members of JLGs.

MFIs could be –

- **NGO-MFIs** – registered under the Societies Registration Act, 1860 or the Indian Trust Act, 1880
- **Cooperative MFIs** – registered under the State Cooperative Societies Act or Mutually Aided Cooperative Societies Act or Multi State Cooperative Societies Act
- **MFIs incorporated under Section 25 of Company Act 1956 / Section 8 of Companies Act, 2013**
- **NBFC-MFIs incorporated under the Companies Act, 1956/2013 and registered with RBI.**
- **Local Area Bank.**

Role of NABARD As Microfinance Facilitator

- NABARD has continued with its role as the main facilitator and mentor of microfinance initiatives in the country, particularly the SHG Bank Linkage initiative.
- Apart from refinancing the loans issued by eligible credit institutions to SHGs/JLGs, it provides support in the form of grant assistance for formation, nurturing and credit linking of SHGs with the banks, capacity building of various stakeholders through training, exposure visits, seminars, workshops, etc.
- NABARD intensified its efforts to promote sustainable livelihoods among SHG members by launching **Livelihood and Enterprise Development Program (LEDP)**, pilots in micro insurance and pension, digitization of SHGs.

Promotion of Women SHGs in backward districts

- This is a targeted scheme which NABARD implements in association with the Department of Financial Services, Ministry of Finance, and Government of India. NABARD continued to implement the scheme for promotion and financing of Women Self Help Groups in 150 identified Left-Wing Extremism (LWE) and backward districts of the country.

Promotion of JLGs

- Under its JLG promotion support initiatives, NABARD has been extending grant support for formation and nurturing of JLGs to banks and other JLG promoting institutions. For strengthening JLG financing, NABARD also extends (a) financial support for awareness creation and capacity building to all stakeholders of the program and (b) Refinance support to those banks which finance JLGs.

SHG Based Livelihood Interventions of NABARD

- Self-employment generation and creating employment opportunities through businesses are the two important aspects from entrepreneurship development perspective. NABARD recognizes that livelihood promotion activities are essential for holistic financial inclusion.
- **MEDP and LEDP** are the two skill development programs supported by NABARD for providing necessary impetus to enterprise promotion activities amongst SHG members.
- NABARD has updated the guidelines under MEDP and LEDP. The new features are - the programs now include JLG members as participants, provision of daily stipend to participants, additional training on market linkages, e-marketing, branding and packaging, demonstration unit and issuance of Training Certificates for enabling participants to obtain Bank loan to set up enterprises.
- The grant assistance has been enhanced for MEDPs from Rs. 0.50 lakh to Rs. 1.00 lakh and in case of LEDPs from Rs. 6.43 lakh to Rs. 8.80 lakh for Farm Sector and from ` 4.98 lakh to ` 7.15 lakh for Non-Farm Sector.

Micro Enterprise Development Program (MEDP)

- It was launched in 2006, the main objective of the program is to enhance the capacities of participants, through appropriate skill up-gradation in existing or new livelihood activities in farm or non-farm activities and enrich knowledge of participants on enterprise management, business dynamics and rural markets.
- Training activities under MEDP, being short duration in nature, are organized for 15 days and with 30 participants. A maximum grant assistance of Rs. 1 lakh is available under NABARD's support towards conduct of farm or non-farm based MEDPs.
- Digitization brings in speed and efficiency and to ease application processing NABARD operationalized MEDPs on "NABSKILL" portal, in July 2019. It is very encouraging to note that during 2020-21, 273 MEDP applications were processed on NABSKILL.

Livelihood and Entrepreneurship Development Program (LEDP)

- Taking cue from the feedback generated from implementing MEDPs for over 10 years, prompted NABARD to conceive a more comprehensive and holistic approach towards sustainable livelihood generation and in December 2015, the Livelihood and Enterprise Development Program (LEDP) was initiated on a pilot basis.
- LEDP also envisaged conduct of livelihood promotion in both farm and off-farm activities but under project mode in clusters in contiguous villages, with a provision for intensive training for skill building, refresher training, backward-forward linkages, handholding and escort support for credit linkage.
- The broad objectives of LEDP are to identify suitable livelihood activities through participatory approach, to enhance the capacities of SHG members through identifying the skill gaps and appropriate skill upgradation, to enhance the income levels of SHG members.

Project E – Shakti

- In line with Government of India's "Digital India" mission, E-Shakti, a pilot project for digitization of SHGs was launched by NABARD in the year 2015 in two districts Ramgarh (Jharkhand) and Dhule (Maharashtra) and later expanded to 100 districts across the country during 2016 and 2017.
- It aims at digitization of data of all SHGs for enhancing the ease of doing business with SHGs. USP of the E-Shakti project is 'one-click' availability of the social and financial information of the Self-Help Groups maintaining Saving Bank accounts with the banks.
- The project which operates through the portal viz. <https://eshakti.nabard.org>, and mobile Apps (E-Shakti App and E-Shakti Tracker App), makes the SHGs and their members accessible to bank credit and also empowers them by giving access to their own bank accounts and other details through their mobile.

SIDBI & Micro Credit

SIDBI Foundation for Micro Credit (SFMC)

- SIDBI, with an intention to fill the institutional void in inclusion space, started experimenting in 1994, by dispensing Micro Credit through the NGOs, wherein such institutions were used as financial intermediaries for delivering credit to the poor and unreached, mainly women.
- A department within SIDBI viz. **SIDBI Foundation for Micro Credit (SFMC)** was created in 1999, to serve as an apex wholesale unit for microfinance providing a complete range of financial and non-financial services to the MFIs, so as to facilitate their development into financially sustainable entities.
- SFMC is providing services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) so as to facilitate their development into financially sustainable entities.

National Microfinance Support Program

“**National Microfinance Support Program (NMFSP)**” was launched by SIDBI in April 2000. Under the NMFSP, SIDBI entered into a collaboration with Department for International Development (DFID), UK in April 2000. Subsequently, another collaboration with International Fund for Agricultural Development (IFAD), Rome in April 2002 was made with a view to providing on-lending fund support to partner MFIs.

The purpose of the program was:

- To contribute to the development of a more formal, extensive and effective microfinance sector on a national scale that serves poor women and men; and
- To assist in the evolution of an appropriate enabling environment for the development of sustainable finance institutions.

Rating of MFIs

- Most micro finance programs were initially operated by NGOs and were not subjected to regulation and supervision as they were registered as Societies or Trusts. Non-regulation of these institutions worked to their detriment and these institutions were not able to have smooth access to funds from the financial sector which was wary of lending to such entities.
- SIDBI pioneered the concept of **Capacity Assessment Rating (CAR)**. The MFI rating tool on various parameters, that has become an industry- standard, put the much-needed checks in place to assess risk perception of MFIs and is used as proxy for Bank Loan Ratings. Rating of MFIs has gained sector-wide acceptance and has become a pre requisite for getting assistance from the banks/ financial institutions.

Responsible Financial Initiatives

- SIDBI implemented a World Bank funded “**Scaling Up Sustainable and Responsible Microfinance Project**” aimed at scaling up access to sustainable microfinance services to the financially excluded, particularly in under-served areas of India, by introduction of innovative financial products and fostering transparency and responsible finance.

The major initiatives taken by SIDBI in the field of Responsible Finance Practices are

- Creation of a Lenders' Forum
- Facilitating Development of a common code of conduct for the MFIs and ensuring adherence thereof
- Laying down standards for the sector through measures like concept of risk rating, portfolio audits, system audits, etc.
- Carrying out Sectoral Studies/ Impact Studies
- Creating awareness about Clients' Protection Practices.

Lenders Forum

- As part of its responsible finance initiative, SFMC has facilitated Lenders' Forum comprising key MFI Funders with a view to promoting cooperation and responsible lending practices among MFI lenders for leveraging support to MFIs across all the stakeholders.

Code of Conduct Assessment

- Under the World Bank project, one of the initiatives undertaken towards responsible finance practices was development of Code of Conduct Assessment (COCA) of MFIs. COCA measures MFIs' adherence to ethical and sound practices that enable an MFI to maintain good relationship not only with the clients but also with all other stakeholders in the sector.
- **SIDBI has helped to develop a Code of Conduct Assessment Tool**, which applies to providing credit services, recovery of credit, collection of thrift, etc., for MFIs to assess their degree of adherence to the voluntary microfinance Code of Conduct.

Poorest States Inclusive Growth Program (PSIG)

- SIDBI has also implemented the Poorest States Inclusive Growth Program funded by **UK Aid** through the **Department for International Development (DFID)** in the states of Uttar Pradesh, Madhya Pradesh, Bihar and Odisha during 2012-19 period.
- The project encouraged provision of financial services in a responsible manner to the poor besides, facilitated promotion of institutions providing diverse financial services to the poor and improving the capacities of poor especially women in tackling financial and gender issues.

India Microfinance Equity Fund (IMEF)

- To ease the tight liquidity situation, in the FY 2012, GoI stepped in with creation of a Rs.100 crore Fund, operated through SIDBI, to strengthen capitalization of smaller, socially oriented MFIs, especially in underserved states/areas.
- The allocation under IMEF has been increased by Rs. 200 crore in FY 2013-14. The assistance under the Fund is expected to help the MFIs leverage more debt

funds from the banks and financial institutions and help in increased flow of assistance to the poor in the unserved/underserved areas of the country.

Initiatives By RBI And GOI

- While the continuation of priority sector status for on-lending to MFI continues, new entities viz., Small Finance Banks (SFBs) have been inducted in the financial system, along with focus on furthering financial inclusion through Pradhan Mantri Jan Dhan Yojana (PMJDY).
- RBI had raised the annual household income limit of rural borrowers to be eligible to take loans from MFIs to Rs. 1.25 lakh; in the case of urban/semi-urban borrowers it has been increased to Rs. 2.00 lakh. MFIs, in the first cycle of loan, can disburse up to Rs. 75,000 and Rs. 125,000 in subsequent cycles.

RBI's Consultative document on regulation of MFIs

RBI has released a consultative document on the regulation of microfinance in June, 2021 with an intent to revamp the regulatory policy for MFIs-essentially the non-banking financial companies (NBFC-MFIs).

Common definition of micro-finance loan:

- Microfinance loans shall mean collateral-free loans to households with annual household income of Rs. 1.25 lakh and Rs. 2.00 lakh for rural and urban/semi urban areas, respectively.

Other instructions applicable to microfinance loans of all REs:

- Each regulated entity shall have a Board approved policy for - household income assessment capping the payment of interest and repayment of principal for all outstanding loan obligations of the household as a percentage of the household income, subject to a limit of maximum 50%.
- No pre-payment penalty
- Disclosure of pricing related information in a standard simplified fact-sheet
- Display of minimum, maximum and average interest rates charged on microfinance loans.

Criteria for exemption of 'not for profit' microfinance companies

- Undertaking micro financing activities i.e., providing collateral-free loans to households with annual household income of Rs. 1.25 lakh and Rs. 2.00 lakh for rural and urban/semi urban areas respectively, provided the payment of interest and repayment of principal for all outstanding loans of the household at any point of time does not exceed 50 per cent of the household income
- Registered under Section 8 of the Companies Act, 2013
- Not accepting public deposits
- Having asset size of less than Rs. 100 crore.

The proposed changes seek to link the overall permissible indebtedness limit to the repayment capacity of the borrower at a household level i.e., the limit should not exceed

50% of the household income. This applies to a rural household with an income of not more than Rs. 1.25 Lakh as well as an urban or semi-urban household with an income of not more than Rs. 2 Lakh.

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