



CAIIB

Module-D Unit-3

Rural Banking



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 focussed 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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