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PREFACE

A Conference on ***Financial Services Accessibility and the Poor: Need for Facilitating Regulatory Environment*** was jointly organised by SIDBI and Sa-Dhan on 19–20 January, 2005. The Conference was held at Jacaranda Hall, India Habitat Centre, Lodhi Road, New Delhi. The event was organized as a marked of the UN International Year of Microcredit-2005. It was attended by many key stakeholders viz., representatives of leading MFIs, Commercial Banks and Indian Financial Institutions such as SIDBI and NABARD, senior government (both State as well as Union) officials, members of the donor community and academicians. This report had exceptionally captured the essence and substance of the conference by assimilating the qualitative deliberations on each theme by the key policy makers and stakeholders in the development sector.

The microfinance sector has grown to a critical point with more than 3.5 million clienteles and a collective loan outstanding of Rs.530 crores in 2003-04. The sector is also witnesses the emergence of new entrants in both supplies and demand streams. Considering the present dynamics of the sector, the period between 2003-04 and 2004-05 ought to have registered significant growth from previous years. However, some of the inherent issues of the sector such as lack of legal and regulatory framework restricted the potential of the outreach and scaling up. Therefore, during the conceptualisation of the Conference, the focus was on three basic elements: (a) What could be the core features of an appropriate legal and regulatory framework that facilitates the sectoral growth? (b) What could be the form of collaboration, association and partnership that could be developed between formal financial institutions and the microfinance institutions in the transforming environment? and (c) What are the resource challenges for the microfinance sector to accelerate the outreach and scaling up? This report documents the qualitative deliberations on these issues.

We are extremely grateful to the Honourable Finance Minister of India, Shri. P. Chidambaram for making it convenient to address the Conference. The Hon'ble Finance Minister in his eloquent address gave a clear direction to the sector, particularly with regard to the expected role of MFIs and banks in providing financial services to the underprivileged sections of the society. The Hon'ble Minister also shared with the participants the perspective of the central government regarding regulation of the MFIs.

With enormous gratitude, we acknowledge each and every resource person who has contributed to the success of the event by giving a broader and wider perspective to the issue of facilitating a legal environment and regulatory framework for the microfinance sector in India.

We are extremely thankful to Dr. Arjun Sengupta (Chairman, National Commission on Enterprises in Unorganised Sector), Dr Rakesh Mohan (Secretary, Economic Affairs, MoF), Mr. Vinod Rai (Additional Secretary, MoF), Ms. Ranjana Kumar (Chairperson, NABARD), Mr G.C. Chaturvedi (Joint Secretary, MoF), Mr. Sisodia (Former Secretary, MoF) Prof V S Vyas (Emeritus Prof., IDS Jaipur) and Dr. S. Narayan (Formerly CEA to the PMO) in carving out future plans for the microfinance sector through their deliberations.

We would also take this opportunity to place our special thanks to all the speakers including Mr. V K Chopra (CMD, Corporation Bank), Mr. Nachiket Mor (ED, ICICI), Mr. Vijay Mahajan (MD Basix), Mr. K Narender (Chief Executive, Kalanjiam Foundation), Mr. M. Udaia Kumar (MD, SHARE Microfin Ltd.), Mr. Sanjay Sinha (ED, M-Cril), Mr. Sitaram Rao (CEO, SKS), Ms. Jayashree Vyas (MD, Sewa Bank), Mr. V Raghunathan (CEO, GMR Foundation), Mr. A Anantha Krishna (Chairman, RRB, Vishakha), Mr. T K Banerjee (Member, IRDA), Mr. M R Umarji (Chief Advisor, Legal, IBA), Ms. Rebecca Black (Director, USAID), Mr. Brij Mohan (Ex CMD, SIDBI).

We are also thankful to our international resource persons –Mr. Manuel Thedim (Director IETS, Brazil), Mr. Amaro Luiz De Oliviera Gomes (MD, Central Bank of Brazil), Ms. Nomasa Motshegare (Manager, MFRC, S Africa), Mr. Ricardo P Lirio (MD, Central Bank, Philippines), and Mr. Jamie Aristotle B Alip (CMD, CARD-MRI, Philippines) — in bringing an international perspective to the issue of regulation for MFIs. Further, we would like to put in record the contribution, cooperation and support of the participants; without which we would have not achieve the objectives of the conference.

We would like to give our sincere thanks to Mr. Krishnakumar (Lecturer (Economics), Sri Venketeswara College, New Delhi), for bringing out this report in its present form.

We encourage our readers to share their comments and suggestions.

N. Balaubrahmanian
CMD, SIDBI

Mathew Titus
ED, Sa-Dha

LIST OF ABBREVIATIONS

BSP	Central Bank of Philippines
CGAP	Consultative Group to Assist the Poor
DICGC	Deposit Insurance and Credit Guarantee Corporation
IFPRI	International Food Policy Research Institute
IRDA	Insurance Regulatory and Development Authority
KYC	Know Your Customer
LAB	Local Area Bank
M-CRIL	Micro Credit Ratings International Ltd
mFEs	microFinance Entities
mFIs	microFinance Institutions
MFRC	Microfinance Regulatory Council
MFDRA	Microfinance Development and Regulatory Authority
MRI	Mutually Reinforcing Institutions
NABARD	National Bank for Agricultural and Rural Development
NGO	Non Governmental Organisation
NSS	National Sample Survey
RBI	Reserve Bank of India.
RRB	Regional Rural Banks
SEWA	Self Employed Women's Association.
SHG	Self Help Group
SIDBI	Small Industries Development Bank Of India
SLR	Statutory Liquidity Ratio
SMEs	Small and Medium Enterprises
STEMS	Single Terminal Enabled Multiple Services
UCB	Urban Cooperative Bank
UPA	United Progressive Alliance.
CARD - MRI	Centre for Agricultural and Rural Development Mutually Reinforcing Institutions

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The Conference aimed at identifying the key impediments in the area of providing microfinance services to the poor and focused on the necessity of a legal and regulatory framework for the microfinance sector, so as to facilitate the upscaling of the services rendered by the various organisations to the poor and the unorganised sector. (The demand for regulation that too, while the clamour for the same comes from within the sector itself, seems rather strange). This becomes all the more so, while the economic rhetoric in post-reforms India in itself is tinged with ideas of deregulation. But while the importance of being regulated becomes a means to the larger goal of enhancing financial services to the poor, the intentions of the sector is well-received. Specific technical sessions dealt with various aspects relating to the sector like governance and prudential norms, developmental supervision and, over and above all, the very important legal and regulatory framework. Clearly reflective of the growing interest in the microfinance sector, development practitioners from various international organisations, tiers of government, ministries, aid agencies, and non-government organisations attended the Conference.

INAUGURAL SESSION

In his introductory address, Mr Mathew Titus, Executive Director, Sa-Dhan, drawing on the international experience, underlined the importance of a regulatory framework for the sustainable growth of the sector. Setting the tone of the seminar, he reiterated the importance of designing a regulatory regime, that would through setting the right incentives and reducing distortions, enable the sector to perform its developmental roles in a better way. In his welcome address, Mr N Balasubramanian, CMD, SIDBI, observed that the regulatory regime, though should insist on prudential norms for deposit taking microfinance institutions (mFIs), should not stifle the innovative and flexible mode in which the sector currently operates. In his special address, Mr V K Chopra, CMD, Corporation Bank, remarked that, in the situation of mFIs not being allowed to take deposits from the poor, a strategic tie-up with the commercial banks in the region would go a long way in channelising the savings of the poor and thus inculcating savings habits in the poor. He emphasised that the regulatory structure to be charted out should address diverse issues pertaining to consumer protection, credit information services and setting of interest rates.

Expressing the condolences of the house on the damage inflicted by the recent tsunami on the livelihoods of the poor, Smt Ela R Bhatt, Chairperson, Sa-Dhan, observed that microfinance services like insurance presumes an unprecedented importance in this context. In her keynote address, she drew the attention of the house to the inability of the conventional rating agencies in appreciating the intricacies of microfinance. In her address, she focused on the legal and regulatory obstacles that currently confront the sector. It is not just the case that only organisations registered and regulated by the RBI are permitted to accept deposits, but it is also the case that the equity requirement of two crores, towards registering in such a form, is indeed a formidable barrier, which many mFIs find too high to cross. Given that the norms and practices that have evolved in the microfinance sector, run contrary to the conventional banking laws and practices, it would be in the fitness of things to have an independent Microfinance Development and Regulatory Authority (MFDRA), which would facilitate the regulated growth of the sector and, at the same time, enable it to perform developmental tasks, specifically of enhancing accessibility of financial services to the poor.

In his inaugural address, Dr Arjun Sengupta, Chairman, National Commission on Enterprises in the Unorganised/Informal Sector, appreciated the tasks performed by the microfinance sector. Any regulatory structure in place should be designed in such a way that it does not curtail the element of flexibility enjoyed by the sector currently. In fact, the government could think in terms of a grant fund towards meeting the capital requirements of

the mFIs/mF sector. This would facilitate the growth of the sector by increasing accessibility to funds, without curtailing the autonomy over the execution of developmental functions. The obstacles posed in the form of the high entry barrier are merely technical. With the regulatory framework in place, these institutions stood the risk of being brought under the umbrella of government rules pertaining to the tax regime, cap on lending rates etc, he cautioned

TECHNICAL SESSION I

Growth of Microfinance: Issues and Challenges

The first Technical Session was chaired by Dr Arjun Sengupta and later by Dr S Narayan, formerly Chief Economic Advisor to the Prime Minister of India. The session largely focused on the issues and challenges confronted by the microfinance sector. In his presentation, Mr Udaia Kumar, SHARE Microfin Limited, brought to attention the changing face of the microfinance sector in India and the challenges in the days ahead. The lack of a proper organisational form that addresses simultaneously the concerns of the poor and offers deposit services to them, the restrictions imposed on access to external commercial borrowings (ECBs) at cheaper rates, the reluctance of the commercial banking system to transfer the benefits of decrease in interest rates to the sector, the low credit flow to the sector from the banking system due to the RBI insistence on KYC norms— all these were enumerated by him as impediments to the growth of microfinance services in our country.

In his presentation, Mr K Narendar, Kalanjiam Foundation, reiterated the importance of the microfinance sector having a holistic perspective to development. Provision of financial services should be considered as instrumental towards addressing the overall development of the poor. The sector should go beyond microfinance and generate capacities within the population to prepare them to address their own problems of development. Constant interactions with the various layers of the government, banking institutions and concrete relief efforts for the poor during times of distress would go a long way in forging social capital that is required to reinforce ideas of development.

Mr Manuel Thedim, from Brazil provided the audience a flavour of the rich experience, which Brazil has had in the provision and growth of microfinance. Clearly demarcating the growth of the microfinance sector into six phases, he highlighted the role of supportive governmental legislations in the emergence and growth of the sector. The guidelines provided by the banks to extend the scope of their activity, either through the setting up of branches or through other agencies, resulted in Brazil witnessing the emergence of a number of banking correspondents, which started providing services to the people who were out of the ambit of banking services till then.

In his concluding remarks in the first session, Dr Narayan observed that the Grameen Bank experience in Bangladesh would not have clicked but made the political will to recognise the same, right from the beginning. One of the objectives that lead to the nationalisation of banks in India, being the inaccessibility of credit to the poor; the public sector banks ought to own responsibility for the current situation. The mFIs should focus on providing creative support, in order that the poor overcome hardships and are enabled a chance towards maximising survival, he observed in his remarks at the conclusion of the session.

TECHNICAL SESSION II

Facilitating Legal and Regulatory Framework

The Technical Session II on the legal and regulatory framework required towards facilitating the growth of mFIs was chaired by Dr Rakesh Mohan, Secretary, Economic Affairs, GoI. Observing that RBI is one of the few central banks, which has in its charter mention of agricultural credit, Dr Mohan observed, credit for the unorganised and

the agricultural sector had been an important preoccupation of the administrators in our country for long. The microfinance movement is yet another link in the constant process of innovations on the credit front in our country. The unorganised sector though has been characterised by high transaction costs and lending and credit risks, the recent advancements in information technology reduces the costs of collecting information and assessing risks, So the prospects of microfinance are brighter.

Mr T K Banerjee, IRDA, in his presentation drew the attention of the audience to the low level of insurance penetration in countries like India, compared to the developed world. This presumes all the more importance due to the loss of assets and lives in the course of natural disasters. Details regarding the draft regulatory framework for microinsurance proposed by the IRDA was presented to the audience and opinions solicited from the participants. The three-pronged strategy proposed for the provision of micro-insurance includes: adapting insurance companies to the requirements of the microeconomy, linking them as wholesale institutions to SHGs and upgrading SHGs as financial cooperatives. If these strategies are resorted to, these informal institutions can be of great help in reducing the demand-supply gap amidst the poor for microinsurance, he observed.

Mr Vijay Mahajan, BASIX argued that unless a framework emerges by which five–sixth of the Indian population were given access to savings deposits, people from the poorer sections would continue to lose amounts to fly-by-night operators. Unfortunately, the formal banking system has been a failure in this regard. In fact, the poor are in desperate need for composite financial services, which ought to delivered through a single window arrangement, STEMS (Single Terminal Enabled Multiple Services), for the facilitation of which he suggests that the *power of the microprocessor should be integrated with the demand for microfinance*. He suggested that the minimum Foreign Investment Promotion Board (FIPB) limit to the contribution to equity be reduced from $ 500,000 to $50,000. The mF sector is currently under a *multiple regulator syndrome*, which needs to be corrected with a single regulator, so that transaction costs in this regard are reduced and better access to composite financial services is made available to the poor.

Presenting a model legislation towards the regulation of the mFIs was Mr M R Umarji, Chief Legal Advisor, IBA. He argued that the regulatory structure in place for the banks and the Non Banking Finance Companies (NBFCs), based on Basel norms and prudential norms would be least suited for the sector. Through his presentation, he made a case for an independent regulator. Under the Indian legal framework, it is obligatory to adopt the structure of a company registered under the Companies Act in order to access public deposits. The proposed legislation adapts the structure of Trust for the microfinance institutions. In the model legislation, he classifies the institutions into two categories: microfinance Entities (mFEs) and mFIs. Only while an mFE crosses the limit of 100 lakh would it get transformed into an mFI, with a higher level of surveillance and monitoring. Various checks and balances, incorporated in the model bill take care of the plausible misuse of the legislation by undesirable elements.

Mr Amaro Luiz De Olivera Gomes, Central Bank of Brazil gave an overview of the efforts undertaken by the Central Bank in coordination with the government towards increasing the scope of financial services and its availability in Brazil. The concentration of the main banks in the urban areas targeting rich clients had resulted in the dispersed population in Brazil having limited access to them. The same is currently being rectified through the banking correspondents. Efforts are on towards enhancing the number of simplified accounts developed towards handling social security payments. The directives to the banks to divert at least 2% of the demand deposits to the microcredit sector, monitoring of all activities and operations

of not only the financial institutions but also the non-profit organisations by the National Monetary Council are all bringing forth dynamic changes in the Brazilian financial system, he observed. Concluding his presentation, he remarked that skill development through education, and facilitation of the credit cooperatives to serve as banking correspondents would result in a further growth of the microfinance sector in Brazil.

TECHNICAL SESSION III

Governance and Prudential Norms

The third Technical Session with its focus on 'Governance and Prudential Norms', chaired by Mrs Ranjana Kumar, NABARD, witnessed speakers making specific suggestions towards improving the governance structures and adopting the best practices in vogue in the rest of the world, so as to facilitate the sustained growth of the microfinance sector. Initiating the discussion was Mr A Vikraman, SIDBI, who observed that the specific strength of the microfinance sector was its expertise in developmental activities. But, he cautioned the organisations against the *founder syndrome*, which feels threatened at the emergence of new leadership, the solution to which lies in professionalisation. Strengthening of external audit arrangements and capacity building at the institutional level would go a long way in achieving better efficiency in the sector, he concluded.

Mr Sanjay Sinha, M-CRIL, brought with him the experience of the international credit rating of microfinance institutions. Explaining the methodology of the credit rating undertaken by M-CRIL, he reminded the audience that less than 40 mFIs in the country, were in a desirable state of rating. Interestingly, the outreach to the clients of these A type institutions is the highest. He argued that it is on the basis of the Asian experience that the entry barrier of Rs 2 crore for registering as an NBFC is being opposed. Concluding his remarks, he observed that the Sa-Dhan initiative had not been towards watering down minimum prudential norms, but for bringing down minimum capital requirements.

In her presentation, Ms Nomasa Motseghare, from MFRC, South Africa reiterated the importance of non-prudential norms in microfinance regulation and the absence of multiple-regulation in the system in South Africa. The entities registered with the MFRC are exempted from the provisions of the Usury Act and all microlending activities are under the supervision of the MFRC. The protection of the consumer is the primary priority in the system there, observed Motseghare. Specific features of the regulatory regime like the National Loans Register and the Consumer Credit Act 2005, which is in the offing were discussed in detail.

Mr Sitarama Rao from SKS brought out the Sa-Dhan perspective on governance, prudential norms and standards in the microfinance sector. The challenge before the microfinance sector has been to chart out a process by which the objectives of sustainability and expanded outreach could be attained in a regulated manner. In its exercise, Sa-Dhan had taken various standards suggested by different rating agencies and taken the best of the criteria, to generate the performance standards, he remarked.

Commenting on the community development movement in the Seventies in the United States, Ms Rebecca Black from USAID observed that the same was preceded by credit unions and agricultural cooperatives. The trust gained by the community development corporations became self-evident with most of them handling large loan portfolios, most of which was routed through the banks. She observed that in the course of the prosperity of the Nineties, many of them have started dealing with billions instead of millions of dollars. The challenge ahead for the sector, observed Black, would be to get formalised, without losing its inherent innovativeness.

TECHNICAL SESSION IV

Developmental Challenge of Supervision

The fourth Technical session, with its major focus on 'Developmental Challenge of Supervision' was chaired by Mr G C Chaturvedi, Jt Secretary, MoF. Apart from unravelling the celebrated success of the SEWA experiments in banking with urban women working in the informal sector, Ms Jayashree Vyas from SEWA Bank drew the attention of the house towards the constraints to the growth process of the sector due to over-regulation by multiple agencies in the system. She also drew the attention of the house to the various legislative restrictions that disabled the UCBs from providing various financial services like pensions and insurance, which were very much required among the poor in the urban informal sector. The directives and legal procedures on the basis of which RBI undertakes the supervision clips the wings of flexibility, that a development organisation requires. Through the development experience at SEWA bank, Ms Vyas successfully made a case for a single body regulator for agencies operating in the microfinance sector, so that financial services were made more accessible to the poor with lower transaction costs.

Mr Ricardo P Lirio brought with him the regulatory experience of the microfinance sector in Philippines. He observed that the Central Bank had been mandated by the General Banking Law (2000) to recognise the peculiar characteristics of microfinance. Though mFIs accepting deposits had been brought under the regulatory framework, they were excluded from strict prudential regulations. He said that the macro-level data with the Central Bank reveals that there had been a large increase in the credit disbursement from the microfinance-oriented banks and so too was the case of the mobilisation of savings. Furthering on the Filipino experience was the presentation by Jamie Aristotle Alip, who gave an overview of the functioning of CARD, a mutually-reinforcing institutions set up for the upliftment of the poor. This Filipino organisation was complaining about the high level of auditing tasks to be the major obstacle to the growth of the sector.

Mr V Raghunathan from GMR Foundation, in his presentation, sounded sceptical about the prospects of supervision in the microfinance sector under the pretext that the sector, particularly in India, was too large indeed to be dealt with. Moreover, he argued, the country with diverse lingual, cultural and economic groupings could hardly be brought under one umbrella of regulation. Yet another challenge would be as to how the states concerned could be brought on board, while at the same time, retaining the character of a central legislation, he observed.

The experience of the Regional Rural Bank (RRB), Vishakha, was shared with the audience by Mr Anantha Krishna, who observed that the earlier scepticism that the banking system cherished over the bank-SHG linkages was not any longer true. The group lending to SHGs, he remarked, was resulting in structural transformation in rural economies, creating employment opportunities and encouraging increased participation of women in the economy. Product diversification and development of skills, coupled with the creation of new markets, he hoped, would result in further improvements in the livelihoods of the poor.

CONCLUDING SESSION

The Way Forward

Chairing the fifth Technical Session on 'The Way Forward', Smt Ela R Bhatt presented to the Finance Minister, the demands of the sector which would enable improving the accessibility of financial services to the poor:

1. Recognition of the role of microfinance in the system by providing for a microfinance NBFC, Vikas Nidhi.

2. Establishment of a Microfinance Development and Regulatory Authority.
3. Facilitating environment to have easier access to resources through amendments in tax rules and foreign investment norms.

The sessions had presentations by Mr Nachiket Mor, Mr Vinod Rai, Prof V S Vyas and finally, the address by Mr P Chidambaram, Hon'ble Minister for Finance, GoI. In his presentation, Mr Mor drew the attention of the house to the increasing interest of the private sector banks in the area of microfinance. He demonstrated in the course of his presentation, the importance of the partnership model and securitisation deals, furthered by the ICICI bank in this sector. He argued that the standardised models deployed by banking institutions would only work in an urban environment, it would not hold good for the rural areas. In fact, the partnership model proposed by the ICICI Bank has some commonality with the concept of correspondence banking in vogue in Brazil. Given the possibility that the bank could, suddenly, retreat from the field of microfinance, the mFIs may be at a risk. Towards coping up with that risk, he suggested the creation of a credit bureau, which through detailed personal identification numbers would go a long way in even offering interest rate concessions to creditworthy borrowers. He ended his presentation, giving a call to the members in the sector to put their heads together and pursue the idea of a credit bureau, rather than waiting for the government to take the initiative.

Mr Vinod Rai, Additional Secretary, MoF, said that one of the most important reasons behind the low offtake of credit, particularly in the housing sector, had been the lack of proper land records. He cautioned against any moves that would bring about interest rate ceilings in the mF sector, for the inherent strength of the sector had been in its ability to get out of the web of the subsidy-syndrome.

Prof. V S Vyas, in his presentation, bemoaned the inability of the public sector banks to reach out to the poorer sections of the society in the rural areas, despite this being one of the forces behind nationalisation. The breakthrough made by the bank-SHG programme notwithstanding, the mFIs ought to be promoted through proper legislative support, he remarked. As far as interest rates are concerned, Prof Vyas argued that, if the interest rates charged in the mF sector were higher than the cost of capital and charge on services rendered, then the issue ought to be seriously looked into.

Clearly reflective of the pertinence of the sector in policymaking, was the encouraging presence of Mr P Chidambaram, at the final session. Appreciative of the demands raised by Ms Bhatt, the minister lauded the activities of the sector in poverty alleviation. Cautioning against the clamour for regulation, the minister argued that the flexibility of the sector would get negatively affected if brought under the regulatory umbrella. Nonetheless, he yielded that only those deposit-taking mFIs should be put under surveillance, lest the flexibility required for furthering developmental activities would get nipped in the bud. He wanted the sector to formally chart out the modalities of the MFRDA, before any decision in this regard could be taken. He drew attention to the fact that the banks were depositing far more than mandatory, in government securities (SLR). He suggested that only those mFIs that were rated should be allowed to take deposits and that the mFIs should be ready to shoulder the responsibility of creating capacities in the SHGs and undertake the responsibility of credit-rating them.

In fact, the two-day SIDBI-Sa-Dhan Conference proved to be an importance milestone in the history of credit in India. In setting the tone for mainstreaming microfinance and initiating steps towards concretising the demands for a legal and regulatory framework, the Conference was indeed successful. In fact, the microfinance sector in India is at a new point of inflexion.

1.0 Inaugural Session

1.1 Introduction and Key Challenges Ahead of the Sector: Mr Mathew Titus, Executive Director, Sa-Dhan

In his introductory address at the two-day seminar, Mr Titus observed that with 90% of the total labour force in India employed in the informal sector, and studies undertaken by NCAER revealing that around 83% of the rural poor lacked access to institutional credit, the challenges before the microfinance (mF) sector were indeed formidable, but not insurmountable.

Financial accessibility to the poor has been a dominant concern of the sector for long; the poor have least access to credit, savings or insurance services. Nonetheless, over the last few years, there has been an unprecedented keenness from the part of the commercial banking system to work in co-ordination with the mFIs, particularly those of a regulated nature. Not that the whole of the mF sector is unregulated, but those regulated confront the problem of multiple-regulation, and the others, unable to offer even services of primary importance, like savings for the poor, due to legal restrictions. Towards the sustained growth of the mF sector, it would only be in the fitness of things, to design a single regulatory structure that limits opportunistic behaviour, prevents systemic imbalances, avoids distortion of competition, improves efficiency and gets the incentive systems right, he observed.

Given that the legal and regulatory framework institutionalised in Brazil and Bolivia has facilitated the sustained growth of the sector in those countries, India would do well to have such a mechanism in place at the earliest.

1.2 Welcome Address: Mr N Balasubramanian, CMD, SIDBI

Unveiling the plans SIDBI had in the mind for the mF sector in the coming years, Mr Balasubramanian drew the attention of the gathering to the various problems confronted by the organisations in the sector, due to the lack of an appropriate legal structure.

- Most of the organisations currently engaged in the delivery of mF services are established under the Societies Registration Act 1860 that provides for the performance of activities of charitable nature only. Banking activities are not specified as permissible, and, in any case, if they earn a substantial part of the income from lending, it would violate certain sections of Income Tax Act that would lead to loss of their charitable status.
- Many NGOs lack the appropriate financial structure to carry out such activities for they are mainly non-profit organisations. Moreover, they are unable to have equity capital, which constrains their capacity to borrow.
- Registration as NBFCs or Local Area Banks (LABs) would not be possible for most of them, for the minimum capital requirement for the same is very high.

  While the proposed regulatory system could insist on maintenance of prudential norms, the same should not be detrimental to the innovativeness and flexibility the sector currently enjoyed, he concluded.

1.3 Special Address: Mr V K Chopra, CMD, Corporation Bank

Appreciative of the SHG-Bank linkage model put forward by NABARD and the later initiatives of SIDBI in the context of microcredit, Mr Chopra drew the attention of the house to the recommendations made by the Informal Group[1] set up to look into the issues of the microfinance sector. The Group had suggested

- the creation of a National Microfinance Equity Fund towards extending the capital

[1]This refers to the 2003 Report of the Informal Group on Funding Issues of Microfinance, submitted to the Reserve Bank of India, of which Mr V K Chopra was the Convenor.

base of the mF sector,

- insistence of a minimum credit deposit ratio in rural areas towards improving credit flows to rural areas, and
- that directives from the RBI be sent to the commercial banking system to be appreciative of the mF sector.

He regretted the fact that the organised banking system had not been able to bring within its orbit a very large proportion of India's poor, even years after the nationalisation of banks. In any case, if restrictions on the acceptance of deposits continue for mFIs, there should be a strategic tie-up with the commercial banks, which would go a long way in providing safe avenues that would improve the savings habits amidst the poor.

1.4 Keynote Address: Smt Ela R Bhatt, Chairperson, Sa-Dhan

Expressing the condolences of the house on the damage inflicted by the recent tsunami on the livelihoods of the poor, Ms Bhatt observed that mF services like insurance presumes an unprecedented importance in this context. Addressing the gathering, she complimented the sector for the remarkable improvement in credit disbursements to the poor, particularly with the enunciation of the SHG-bank linkage model. But, much is left desired. She argued that of the total estimated demand for credit of Rs 40,000 - 50,000 crore, hardly 10% had been achieved with the outreach not crossing 10 million families. Even more important was the demand for financial services, which she said did not stop with credit, but went beyond it to savings, insurance, pensions and so on. In fact, the performance in these areas was far from desirable, she said.

In her address, she drew the attention of the house to the inability of the conventional rating agencies in appreciating the intricacies of mF and focused on the legal and regulatory obstacles that currently confront the sector. It is not just the case that only organisations registered and regulated by the RBI are permitted to accept deposits, but it is also the case that the equity requirement of Rs 2 crore, towards registering in such a form, is indeed a formidable barrier, which many mFIs find too high to cross. There was a strong case, possibly for a new category of NBFC Vikas Nidhi, with a minimum capital requirement of Rs 25 lakh and a satisfactory rating from internationally known microcredit rating agencies, she remarked. Given, that the norms and practices that had evolved in the mF sector runs contrary to the conventional banking laws and practices, it would be in the fitness of things to have an independent Microfinance Development and Regulatory Authority, which would facilitate the regulated growth of the sector and, at the same time, enable it to perform the developmental tasks, specifically of enhancing accessibility of financial services to the poor.

1.5 Inaugural Address: Dr Arjun Sengupta, Chairman, National Commission on Enterprises in the Unorganised & Informal Sector, Government of India

In his inaugural address, Dr Arjun Sengupta reiterated the commitment of the current government at the Centre to continue the process of market reform. But he cautioned that market forces were mere instruments and that poverty alleviation and the welfare of the poor was the ultimate goal. He took exception to the tendency of viewing the whole development policy debate through the goggles of *state vs market*, as if there was no scope of both of these reinforcing and building up each other for the common good.

Clearly delineating the problems of the unorganised sector, Dr Sengupta observed that the same was characterised by missing markets, lower levels of productivity and lack of availability of finance. Even though the concerns of the mF sector would only be with the third component, there is necessity of the unorganised sector being viewed as a whole, for the problems were interrelated. On *missing markets*, the strategy of the government would be

towards improving connectivity across regions through transport and communication and dissemination of knowledge. Reconciling to the fact that the earlier model of providing concessions to entrepreneurs to move over to far-flung regions was not working, he observed that the realities of the system demand the creation of growth clusters or poles so as to facilitate conditions that would give fresh roots and foundations to the growth process. On the productivity front, he remarked that many of the skill development institutes were supplying skills which were no more in demand. The strategy of the government here would be to address this mismatch between demand and supply of the required skills. It is as far as the third component is concerned, that mF directly comes to the picture.

Complimenting the tasks performed by the sector, he reiterated that the flexible style of functioning permitted by the nature of these organisations made these possible. Regulation necessarily would entail severe costs to this element of flexibility. In fact, the government could think in terms of a grant fund towards meeting the capital requirements of the mFI sector. This would facilitate the growth of the sector by increasing accessibility to funds, without curtailing the autonomy over the execution of developmental functions. The obstacles posed in the form of the high entry barrier are merely technical. Beyond this, once under the regulatory framework, the system would bring these institutions under the umbrella of the government rules pertaining to the tax regime, cap on lending rates and so on, which might turn out to be detrimental to the developmental roles executed by the sector, he cautioned.

2.0 TECHNICAL SESSION I

The first Technical Session was chaired by Mr Arjun Sengupta and later by Dr Narayan. The session largely focused on the issues and challenges confronted by the microfinance sector. Experiences of two organisations within the country and one from Brazil were presented.

2.1 Mr M Udaia Kumar Managing Director, Share Microfin Ltd.

Mr Udaia Kumar brought with him the experience of his organisation, SHARE Microfin (SML), in the delivery of mF services to the poor. The potency of mF in poverty alleviation, having been proven worldwide, accessibility to funds was an important hurdle in the path of SML. It was this which motivated them to move on to the organisational structure of a registered public company, wherein they are supervised by RBI. Studies conducted by IFPRI and certain universities based in Britain have certified the positive impact of the activities of the organisation on poverty alleviation. With a high repayment rate of 99.99%, this organisation was the first of its kind to declare profits, said Mr Kumar. Mr Vinod Khosla had decided to make an investment to the tune of $2 million in this organisation, impressed by the effectiveness of the organisation, both on the front of targeting and on the basis of financial performance standards. The largest ever securitisation deal undertaken by ICICI Bank in the mF sector was with their organisation, observed Mr Kumar. Amounts are taken from ICICI Bank and on their behalf handed over to the clients. The repayments to the bank are facilitated through the organisation. In fact innovations, unimaginable a decade back, have been moving at a steady pace in this sector.

Further, Mr Kumar pointed to the changing face of the mF sector in India at large. The lack of a proper organisational form that addresses simultaneously the concerns of the poor and offers deposit services to them, the restrictions imposed on access to ECBs at cheaper rates, the reluctance of the commercial banking system to transfer the benefits of decrease in interest rates to the sector, the low credit flow to the sector from the banking system due to the RBI insistence on KYC norms—all these were enumerated by him as impediments to the growth of mF services in our country. Further, he also drew the attention of the house towards the necessity of undertaking capacity building in the sector through grants or soft loans, for the nurturing

of capacity required in this sector was found wanting, even in the rest of the banking sector. The unavailability of funds to the equity of organisations is found to constrain the borrowing capacity of various mF organisations, so necessary initiatives in this regard were suggested.

2.2 Mr K Narendar, Chief Executive, Kalanjiam Foundation

In his presentation, Mr Narendar, Kalanjiam Foundation reiterated the importance of the mF sector having a holistic perspective for development. Provision of financial services should be considered as instrumental towards addressing the overall development of the poor. The sector should go beyond mF and generate capacities within the poor to prepare them to address their own problems of development. Large scale upscaling ought to be attempted; not just in the spatial sense, but in the economic (low cost efficiency), technological and social sense. Attempts towards the regeneration of society should be undertaken, for credit delivery alone would least be able to deliver the goods by itself. He reiterated the necessity of grants or soft loans being infused into the sector towards the facilitation of the same.

The Dhan Foundation, he remarked, had done significant work in this regard. Its Kalanjiam Community Banking Programme had been successful in promoting SHGs for women, which were organised into cluster associations and federations. With at least one-third of the total funds being generated internally, loans for income generation had been routed to the groups through cluster associations and banks. Not directly an mF organisation, the Dhan Foundation had been exclusively focusing on poor people intending to make a positive impact on their livelihoods by developing appropriate organisations and services owned by members and going beyond mF, to empower women and develop their livelihoods.

Constant interactions with the various layers of government, banking institutions and concrete relief efforts among the poor during times of distress would go a long way in forging the social capital, required to reinforce ideas of development, he remarked. He reiterated that the sustainability of the poor should be the priority over that of the institutions. To conclude, he expressed scepticism with regard to the geographic concentration of mF activities in the southern states, and wondered about the number of years the North, with a totally different social structure, would take to catch up.

2.3 Mr Manuel Thedim, Director, Institute of Studies of Work and Society (IETS), Brazil

Mr Manuel Thedim provided the audience a flavour of the rich experience, which Brazil has had in the provision and growth of mF. Clearly demarcating the growth of the mF sector into six phases, he highlighted the role of supportive governmental legislations in the emergence and growth of the sector. In the first phase, the initiative was undertaken under the auspices of the civil society, with less of national and international support, though the local governments were very supportive of these initiatives. This phase was found lacking in sustainability principles. The next phase found civil society interventions giving due focus to principles of operational sustainability, with different initiatives getting international support also. The sector received the much-needed legitimacy from the government in the next phase. The decision of the National Monetary Council diverting 2 per cent of the total deposits to the low-income population proved to be ineffective in promoting productive lending. Moreover, the principles of operational sustainability were dropped and an interest rate cap of 2% per month was imposed. It was only at a later stage, while a large review of such policies were undertaken, raising the interest cap on productive credit and regulating the market for microcredit receivables

through the enunciation of a National Microcredit Programme that the movement started growing in a big way.

Mr Thedim also drew attention to the guidelines provided by the banks to extend the scope of their activity, either through the setting up of branches or through other agencies, which resulted in Brazil witnessing the emergence of a number of banking correspondents, providing services to the people who were out of the ambit of banking services till then.

2.4 Dr S Narayan, Former Chief Economic Advisor to the Prime Minister

In his concluding remarks at the first session, Dr Narayan observed that the Grameen Bank experience in Bangladesh would not have clicked, but made the political will to recognise the same, right from the beginning. In fact, it should be noticed that like in Brazil, the Indian origins of mF could be traced to the civil society interventions in Dharmapuri, Tamil Nadu, where the deprivation of institutional credit to the poor was a matter of due concern for civil society, though of course, the benevolent approach of the government was indeed relevant. In fact, Narendar's query as to why the poor should be asked to fit the bill is of immense importance in this context.

One of the objectives that lead to the nationalisation of banks in India being the inaccessibility of credit to the poor, the public sector banks ought to own responsibility of the current situation of low accessibility of financial services to the poor. In fact, all this time, the mF sector was not intermeshed with the political sphere. The political economy of the transformation of micro-credit had to be taken note of. He remarked that the question of survival of the poor across diverse agroclimatic regions in the world is a challenge before the mF sector.

3.0 TECHNICAL SESSION II

The Technical Session II on the legal and regulatory framework required towards facilitating the growth of mFIs was chaired by Dr Rakesh Mohan, Secretary, Economic Affairs, GoI. The session deliberated about the importance of a regulatory mechanism by which the mF institutions could be brought under a single composite regulator. In the context of different specifications in the Companies Act, the Income Tax Act etc. there have been different genres of opinion in the mF sector, with regard to the nature of legislation. The discussions were focused on the nature of legislation required so as to facilitate the growth of the mF sector, while at the same time taking care of the concerns expressed by policymakers with regard to the safety of the depositors and prevention of systemic failures.

3.1 Dr Rakesh Mohan, Secretary, Economic Affairs, Government of India

Observing that RBI is one of the few central banks which has in its charter mention on agricultural credit, Dr Mohan observed that credit for the unorganised and the agricultural sector had been an important preoccupation of the administrators in our country for long, even during the colonial period. Inaccessibility of agricultural credit had been an important concern of the Imperial Bank of India, and it was one of the most important principles, that guided the process of nationalisation of banks. Though agricultural credit has witnessed a remarkable increase over the years, much is yet to be achieved. The history of credit in our country has been that of constant innovation, he observed, adding that the mF movement is yet another link in the constant process of innovations on the credit front in our country. Firstly, the perceived risks in lending in the traditional sector have been very high. Secondly, while attempts were made to reduce risks, the same resulted in large increase in transactions costs. The innovation of mF

institutions is in having reduced both lending risk or credit risk and also transaction costs. The unorganised sector though has been characterised by high transaction costs, and lending and credit risks, but the recent advancements in information technology reduces the costs of collecting information and assessing risks. So the prospects of mF are brighter.

3.2 Mr T K Banerjee, Member, Insurance Regulatory and Development Authority

Mr T K Banerjee, in his presentation, drew the attention of the audience to the low level of insurance penetration in countries like India, compared to the developed world. Given the diverse risks confronted by the population in the less developed world, in the form of higher susceptibility to diseases, higher variations in the level of agricultural incomes due to weather shocks and commodity price fluctuations, it is indeed striking that the inhabitants in the less developed world are hardly insured against them. Microinsurance could play a great role in reducing the vulnerability of poor. The recent tsunami disaster has once again reinforced the importance of coupling innovative micro-credit schemes with insurance products for the poor. Increased access to such insurance products could make on the stabilisation of incomes and would go a long way to improve the repayment rates of the loans incurred, thus reducing the risks associated with micro-credit lending.

Further, the details regarding the draft regulatory framework for micro-insurance proposed by IRDA was presented to the audience and opinions solicited from the participants. The three-pronged strategy proposed for the provision of micro-insurance includes: adapting insurance companies to the requirements of the micro-economy, linking them as wholesale institutions to SHGs and upgrading SHGs as financial cooperatives. If this strategy is resorted to, these informal institutions can be of great help in reducing the demand-supply gap amidst the poor for micro-insurance, he observed. Once the ball is set in motion, on the back of proposed regulation, more and more people/groups would come forward to buy policies which in turn would enable the insurers to attain economies of scale to better serve the poor, he observed. Small policy size in rural areas would be more than offset by the higher volume potential in these areas in contrast with urban areas. It was pointed out by Mr Banerjee that the major thrust of IRDA would be identifying the right agents to harness the full potential of the vibrant and dynamic rural markets. And rural insurance, he commented, should be looked upon as an opportunity and not an obligation.

3.3 Mr Vijay Mahajan, Managing Director, BASIX

Mr Mahajan, in the course of his presentation, drew attention to the fact that due to the extremely tight system of licensing of deposit-taking institutions, only about 17% of the total population had access to bank accounts, the others at best might have a dormant credit account. In fact, this has resulted in a situation where they go ahead with informal channels of savings, losing significant amounts. He argued that unless a framework emerged, by which five–sixth of the Indian population were given access to thrift services, people from the poorer sections would continue to lose amounts to fly-by-night operators. Unfortunately, the formal banking system has been a failure in this regard in addressing this important issue.

It is not just savings service that was required for the poor, the increasing tendencies of rural-urban migration necessitates the role of remittances transfer services also. He drew the attention of an innovative mechanism in this regard in the US, PAYPAL, in the development of which an Indian was also involved. In fact, the desperate need for composite financial services (i.e. of savings, credit, insurance and remittances transfer) amidst the poor, ought to delivered through a single window arrangement, STEMS (Single Terminal Enabled Multiple Services). With over five lakh STD/PCOs

across the country that can be transformed into internet kiosks, the technology network is not found lacking, neither are the talents required for the delivery of the same, thanks to the burgeoning IT sector. So he suggested that towards the facilitation of the same, the *power of the microprocessor should be integrated with the demand for mF*.

Further, he suggested that the minimum FIPB limit to the contribution to equity be reduced from $500,000 to $50,000. Given that in the Income Tax Act, there is a provision under Sec. 11(4)(xii) that gives the government the power to allow investments by NGOs in specified securities, it should now consider allowing investments by NGOs in the equity of the mFIs they are promoting. Access to ECBs had been stopped. That too while the global interest rates were reasonably low indeed, for obvious macro-economic reasons. This has worked against the sector. Despite the recommendations of the 1999 Task Force, due to the understandably conservative deposit regulator, the RBI continues to disallow mobilisation of deposits in the mF sector. The mF sector is currently under a *multiple regulator syndrome*, which needs to be corrected with a single regulator, so that transactions costs in this regard are reduced and better access to composite financial services is made available to the poor.

3.4 Mr M R Umarji, Chief Advisor, Legal, Indian Banks Association

Mr Umarji presented a model legislation towards the regulation of the mFIs. He drew the attention of the declining share of credit accruing to the poorer sections from the public sector banks. This he attributed to the downfall of the DICGC, which in the earlier decades used to insure against payment default on loans to poorer sections. The downfall of the DICGC occurred in the context of the claims over it being even more than the premium collected towards insuring against default. In fact, the formal sector, least appreciative of group lending without collateral, considers the whole of mF sector to be a risky terrain. Emphasising the importance of an independent regulator for the sector, he argued that the regulatory structure in place for the banks and the NBFCs, based on Basel norms and prudential norms would be least suited for the sector.

Given that, under the Indian legal framework, it is obligatory to adopt the structure of a company registered under the Companies Act in order to access public deposits, the proposed legislation adapts the structure of Trust for mF institutions. In the model legislation, he classifies the institutions into two categories: mFEs and mFIs. Any entity engaged in mF operations is to be considered an mFE. But any mFE which is registered under this proposed legistation would only be recognised as an mFI. Only while an mFE crosses the limit of Rs 100 lakh of lending, (all of which has to be done through own funds) would it get transformed into an mFI, with a higher level of surveillance and monitoring. In the case of these institutions, the mobilisation of deposits from members would be possible in the form of contributions, repayable, say, in the course of three months, without cheque services.

The nature of securities to be offered to the banks in the course of taking loans and the liabilities therein, were discussed in detail. It was suggested that loan receivables, like in the case of the ICICI model alone would serve as the securities, through this process the entire risk of the loans is transferred on to the bank and the amount realised affront. Moreover, given the nature of Trust, the trustees would be least liable for the liabilities incurred, for they are executing duties as a part of their social responsibility. Various checks and balances, incorporated in the model bill take care of the plausible misuse of the legislation by undesirable elements. He solicited suggestions from the sector, for the proposed piece of legislation was part of a work-in-progress.

3.5 Mr Amaro Luiz De Olivera Gomes, MD, Financial System Regulation Dept, Central Bank of Brazil

Mr Gomes gave an overview of the efforts undertaken by the Central Bank in coordination

with the government towards increasing the scope of financial services and its availability in Brazil. The concentration of the main banks in the urban areas targeting rich clients had resulted in the dispersed population in Brazil having limited access to banking services; the same is currently being rectified through the banking correspondents.

Starting in 1999, financial institutions have been allowed to contract companies as banking correspondents, which are permitted to perform such services – always under the responsibility of the contracting institution –as opening and operation of deposit accounts and the granting of loans, both of which could previously be carried out only within the offices of banking institutions. This mechanism was introduced as an additional alternative designed to offer enhanced accessibility to financial services to those segments that were left out of the ambit of the banking system. Viewed in this light, the contracting of correspondents in areas in need of banking services is an element of democratisation of the services provided to the population. At the same time, it has become possible for banks to reduce the fees charged for their services, since the system of correspondents makes it possible to avoid the voluminous investments and operational costs that would certainly be needed, had the traditional solution of opening branches been resorted to.

Efforts are on towards enhancing the number of simplified accounts developed towards handling social security payments. The directives to the banks to divert at least 2% of the demand deposits to the microcredit sector, monitoring of all activities and operations of not only the financial institutions but also the non-profit organisation by the National Monetary Council –all this is bringing forth dynamic changes in the Brazilian financial system, he observed. Concluding his presentation, he remarked that skill development through education, and facilitation of the credit co-operatives (SCM) to serve as banking correspondents would result in a further growth of the mF sector in Brazil.

3.6 Discussions from the House

- Responding to various queries relating to mutual insurance and community insurance, Mr T K Banerjee argued that the majority of the complaints being lodged with the IRDA were from persons bluffed by hospitals, which disown their original assurances on being claimed. Though in Scandinavian countries, it has been a success, he regretted that the IRDA could not take any risk in this regard, in India.

- Queried as to what motivated the regulator to bring the banking correspondent regulation and how the fraud is dealt with at the agent side, if fraud occurs, Mr Gomes observed that the bank is held responsible for the actions taken by the correspondents, the actions against the correspondents are quite constrained. Nonetheless the banks do not handle very huge business with the correspondents, either.

- The representative from CGAP, observed that the low costs incurred in starting bank deposits under the correspondent banking system offers some lessons to India. Opening accounts costs only 55 cent per account as against $17 per account under the old scheme. In this process, a million accounts being opened, is impressive indeed! Moreover, it should be borne in mind that the people themselves would be more comfortable banking at some supermarket store than at the bank, per se.

- Another participant from an accounting firm had queries first about service tax on the mF sector which might crop up. He also wanted to know as to why despite the presence of so many diverse legal forms, which could flexibly be used, there was a proposal for a specific law for mF.

- A representative from an NGO doing remittance programme wanted to know about whether the specific provisions in the UK financial services authority for funds provided by the payment solution providers not been treated as deposits could be used as a precedent.
- A representative from an NGO based in the Ranchi and Hazaribagh districts of Jharkhand wanted to know as to whether it was possible to make the purchase of commodities from SHGs mandatory for certain firms through any legislation.
- A software consultant suggested that while software development is undertaken for mFIs, no uniform model works. It was suggested to have a uniform structure be considered for all models.

4.0 TECHNICAL SESSION III

The third Technical Session with its focus on 'Governance and Prudential Norms', chaired by Mrs Ranjana Kumar, NABARD, witnessed speakers making specific suggestions towards improving the governance structures and adopting the best practices in vogue in the industry in the rest of the world, so as to facilitate the sustained growth of the mF sector.

4.1 Mrs Ranjana Kumar, Chairperson NABARD

Introducing the audience to the topic of the session, Mrs Ranjana Kumar drew attention to the stepping up of social lending taking place over the years. She mentioned about the various attempts like the nationalisation of banks and the initiation of regional rural banks, initiated towards improving the level of rural credit. Even after three decades of nationalisation, people from the lower deciles of the population were meeting at least 35% of their total credit requirements from the unorganised markets or moneylenders, she observed. In our country, the cooperatives have been in a state of mess, if the report of the recent Vaidyanathan Committee is any indication to go by. She remarked that the credit situation in the country had much to learn from the lessons of the past, so as to offer better accessibility.

4.2 Mr A Vikraman, Chief General Manager, SIDBI

Initiating the discussion was Mr A Vikraman, SIDBI, who observed that the specific strength of the mF sector was its expertise in developmental activities. Their awareness of the specificities of the environment in which they are working is extremely important. Despite being an effective instrument for poverty reduction and employment, the aggregate of all the microcredit efforts of NABARD -SHG bank linkages, SIDBI intervention and also of the other commercial banks put together runs to only Rs 3,000 to 4,000 crore, whereas the demand was about Rs 45,000 to 50,000 crore. We need to improve an innovative delivery mechanism, which maintains financial sustainability of operations, which requires an enabling environment, which permits growth by providing appropriate regulations and supervisory tools.

Good corporate governance is a pre-requisite to meet the challenges of intermediation, crucial for mobilising and attracting adequate capital. The nature of ownership will determine, to a large extent, the degree of sustainability of the institutions. Private investment lead by pure profit motive would not be much forthcoming; largely they would be able to attract institutional investment. However, governance risks may arise in the NGO sector due to the 'founder syndrome.' The reluctance of the founding members to yield to new leadership, their threatened feeling over the emerging leadership structure and professionalism would spell doom to different organisations.

The future of mF lies in licensing the same, so that the same would permit substantial delivery of financial services for the poor. The most carefully conceived regulations would be useless, if the same does not lead to effective supervision. There is a need for finalising and adapting best practices with regard to management, governance and operations

of mF. Strengthening of external audit arrangements and capacity building at the institutional level would go a long way in achieving better efficiency in the sector, he concluded.

4.3 Mr Sanjay Sinha, Managing Director, M-CRIL

Sanjay Sinha, from M-CRIL, brought with him the experience of the international credit rating of mF institutions. Good governance and enforcement of prudential norms would become possible if the mF sector resorted to rating, he observed. This is a risk assessment mechanism on the basis of which information asymmetry could be reduced; effectively the same serves as a surveillance mechanism. Explaining the methodology of the credit rating undertaken by M-CRIL, he reminded the audience that it was little less than 40 mFIs in the country, which were in a desirable state of rating. Interestingly, the outreach to the clients of these A type institutions is the highest.

Referring to earlier discussions, he observed, that the profit motive, being an important determinant that makes mFIs sustainable, the company structure itself has to be preferred over the proposed Trust structure. He said that regulation in the sector would not be a problem, if the same was restricted to only those mFIs which have a high credit rating. The entry-level capital requirement for operating as an NBFC being far less in the rest of the Asian countries, it makes no sense to have an entry barrier of Rs 2 crore in India. The laudatory remarks made about the mF sector in Pakistan in an earlier session were pulled down by Mr Sinha under the premises that the entry level requirements at the various tiers were very high: extending from US $1.7 million to 8.6 million.

Concluding his remarks, he observed that the Sa-Dhan initiative had not been towards watering down minimum prudential norms, but for bringing down minimum capital requirements.

4.4 Ms Nomasa Motseghare, Manager, Accreditation and Compliance Division, MFRC, South Africa

In her presentation, Ms Motseghare reiterated the importance of non-prudential norms in mF regulation in South Africa. The country is characterised by the absence of multiple-regulation; in other words, no organisation is regulated by more than one agency. The Reserve Bank regulates the activities of banks and mutual banks; the Financial Services Board that of insurance, pensions and financial markets; and the MFRC, (constituted by representatives of the government, lenders and borrowers) of the micro-lending undertaken in terms of the Usury Act exemption. In fact, the entities registered with MFRC are exempted from the provisions of the Usury Act, subject to certain specifications.

The protection of the consumer rules is the primary priority in the system there, observed Ms Motseghare. The board of regulation is more broad-based in nature: represented by the consumers, lenders, Reserve Bank and other regulators like the Housing Corporation. The focus of regulation is not the entities, but individual loan transactions. Complaints filed with MFRC are pursued and disciplinary action initiated against the erring parties. Actions initiated could vary from severe penalties of about $4,200 per charge, deregistration or reimbursement for the borrower who has been overcharged. Given the extent of complaints, investigations have been outsourced to firms across South Africa.

MFRC owns the data, and manages the National Loans Register. The collection of the data for the same is outsourced to eight private credit bureaus under a service level agreement. The data from the banks, the retail stores and the small lenders are collected and collated by the Information Trust Corporation, *experian* and secondary bureau, respectively. Attempts are being made towards broadening the scope of consumer education on credit facilities. Ms Motseghare observed that the proposed Consumer Credit Bill, 2005 would unveil

a new era of the dramatic restructuring of the credit industry, this legislative measure looks forward to every credit transaction being regulated under a multi-pronged structure.

4.5 Mr Sitarama Rao, CEO, Swayam Krishi Sangam

Mr Sitarama Rao brought out the Sa-Dhan perspective on governance, prudential norms and standards in the mF sector. The challenge before the mF sector has been to chart out a process by which the objectives of sustainability and expanded outreach could be attained in a regulated manner. The most favourable aspect, he remarked, was that the Indian mF sector was fast graduating out of the period of subsidy-syndrome to one lead by borrowings from the commercial banks. In its exercise, Sa-Dhan had taken various standards suggested by different rating agencies and taken the best of the criteria, to generate the performance standards, he remarked.

The industry-wise perspective relates to bringing in more transparency to the system, encouraging MFIs to adopt best practices and integrating the mF sector with the mainstream financial sector. Though the mF sector is largely being mainstreamed, it is in the interests of the sector that the links with the community is retained; this has been the perspective of Sa-Dhan from the very beginning. Sa-Dhan's initiative in the mF sector can be classified under four major overheads: designing of the financial performance standards, accounting standards, disclosure and non-financial performance standards (including governance and SHG standards). The operation standards of SHGs were designed by incorporating the best practices in India and various SHG rating institutions.

4.6 Ms Rebecca Black, Director, Economic Growth Office, USAID

The demand for regulation from the mF sector, observed Ms Black, was due to two important reasons: dire necessity to access capital and, to build consumer confidence and trust in the organisation concerned. The record of the United States in mF, that of the community development movement in the Seventies, that emerged in the context of poverty in urban and rural areas, was preceded by the presence of credit unions and agricultural cooperatives. In the course of the prosperity of the Nineties, these community development corporations began dealing with billions in the place of millions of dollars. The community-controlled organisations deal with large loan portfolios, the same becoming possible, over the Nineties, with the banks routing their loans through them. There have been a number of success cases, wherein small enterprises have grown to large proportions. This is the result of credit being effectively coupled with professionalisation. The national treasury also has given serious thought towards regulating these community development financial institutions. Capacity building was undertaken, and a number of associations and networks were established. We find that enterprises fail not by the lack of quality or markets for their products, but due to the lack of proper professionalism in the organisation. One of the most visible dangers in the non-governmental sector in the United States is the inability of various organisations to reflect within their own organisation, the ideas and values, they are supposedly promoting outside. Indian organisations should take due care in this regard, she remarked.

4.7 Observations from the Chair

Complimenting the speakers for their focussed approach towards the problem, Ms Kumar summarised in detail the specific arguments of every speaker. Most speakers elaborated upon the necessity of composite training, capacity generation, importance of transparency norms and disclosure. She wanted to know from Motseghare as to how the creditworthiness of borrowers was assessed, given that 99% of the loans was unsecured. Moreover, the mF sector in South Africa was substantially dominated by consumer finance; she had doubts about the sustainability of the same.

With these remarks, the proceedings of the first day came to an end.

5.0 Technical Session IV

The second day began with an overview of the proceedings of the previous day done by Ms Achla Savyasachi. The fourth Technical session, with its major focus on 'Developmental Challenge of Supervision' was chaired by Mr G C Chaturvedi, Jt Secretary, Banking Division, MoF. The presentations drew attention to the multiple levels of regulations in the development institutions.

5.1 Ms Jayashree Vyas, Managing Director, Sewa Bank

Ms Vyas, through her presentation, traced the evolution of the mF sector to a stage of maturity over the last three decades and a half. In the late Seventies and early Eighties, the whole sector was concerned about making funds accessible to the poor. A lot of systems and mechanisms came into existence with the involvement of both the NGOs and the mFIs, resulting in new structures like Trust and SHGs being formed. In the second phase, it was realised that it was not only credit that the poor people need but also other financial services like savings, housing and infrastructure credit, insurance, pension and remittances. The second decade was spent more on identifying the nature of services poor people need and in this whole process, it became evident to the formal sector bankers and the policy makers that the poor are bankable. And now in the third stage, the emphasis is more on creating a regulatory environment, which could facilitate the growth of the sector.

Apart from unravelling the celebrated success of the SEWA experiments in banking with urban women working in the informal sector, Ms Jayashree Vyas brought to the attention of the house, the impediments confronted by the sector in the better delivery of services, due to the increase in the administrative costs that crop up in the course of being regulated and supervised by multiple agencies in the system. She also drew the attention of the house to the various legislative restrictions that disabled the UCBs from providing various financial services like pensions and insurance, which were very much in need among the poor in the urban informal sector. The directives and legal procedures on the basis of which RBI undertakes the supervision clips the wings of flexibility, that a development organisation requires. Through the development experience at SEWA bank, Ms Vyas successfully made a case for a single body regulator for agencies operating in the mF sector, so that financial services were made more accessible to the poor with lower transaction costs.

5.2 Mr Ricardo P Lirio, MD Supervision & Examination, Central Bank, Philippines

Mr Lirio brought with him the regulatory experience of the mF sector in the Philippines. He observed that the Central Bank (BSP) had been mandated by the General Banking Law (2000) to recognise the peculiar characteristics of mF. The Central Bank has been considering mF as a flagship programme for its poverty alleviation strategies. Though mFIs accepting deposits had been brought under the regulatory framework, they were excluded from strict prudential regulations. He revealed that the macro-level data with the Central Bank reveals that there had been a large increase in the credit disbursement from the mF-oriented banks and so too was the case of the mobilisation of savings. The BSP looks forward towards the setting up of a credit bureau, so as to benefit the committed borrowers. Performance standards (covering portfolio quality, efficiency, sustainability and outreach) for mFIs are under the due consideration of the Central Bank. The Filipino mF sector has a long way ahead, he said.

5.3 Mr Jamie Aristotle B Alip, CMD, Card Mutually Reinforcing Institutions, Philippines

Furthering on the Filipino experience was the presentation by Mr Alip, who gave an overview of

the functioning of CARD. It is a group of mutually reinforcing institutions set up with an objective of the empowerment of the poor. It strives towards building sustainable financial institutions, owned, managed and controlled by landless poor women. The CARD MRI has different groups under its umbrella: NGO Microfinance, NGO Bank, Mutual Benefit Association, CARD development institute, housing company and marketing. Over the years, the clients of the organisation have been on the increase, it has a high repayment rate of 99.99% and an operational sufficiency of 120%. This Filipino organisation was complaining that the major obstacle to the growth of the sector was the high level of auditing tasks to be performed.

5.4 Mr V Raghunathan, CEO, GMR Foundation

Mr Raghunathan, in his presentation, sounded sceptical of the prospects of supervision in the mF sector under the pretext that the sector, particularly in India, was too large indeed to be dealt with. Moreover, he argued, the country with diverse linguistic, cultural and economic groupings could hardly be brought under one umbrella of regulation. He expressed reservations about the comparison of successes of these diverse mF organisations registered under various acts, like Sec 25, NBFC, UCB etc. Only those organisations engaging in mF, which includes savings and deposits, should be subjected to prudential norms; the others would do well with non-prudential norms. Yet another challenge would be as to how the states concerned could be brought on board, while at the same time, retaining the character of a central legislation, he observed.

5.5 Mr A Anantha Krishna, Chairman, RRB, Vishakha

The experience of the RRB, Vishakha, was shared with the audience by Mr Anantha Krishna, who observed that the earlier scepticism that the banking system cherished over the bank-SHG linkages was not any longer true. Till date, the bank has been able to extend linkage to 50,000 SHGs with a financial outlay of Rs 125 crore. The group lending to SHGs, he remarked, was resulting in structural transformation in rural economies, creating employment opportunities and encouraging increased participation of women in the economy. Product diversification and development of skills, coupled with the creation of new markets, he hoped, would result in further improvements in the livelihoods of the poor.

6.0 CONCLUDING SESSION

The Way Forward

Chairing the fifth Technical Session on 'The Way Forward', Ms Ela R Bhatt presented to the Finance Minister, the demands of the sector which would enable improving the accessibility of financial services to the poor:

- Recognition of the role of mF in the system by providing for an mF NBFC, Vikas Nidhi.
- Establishment of a Microfinance Development and Regulatory Authority.
- Facilitating environment to have easier access to resources through amendments in tax rules and foreign investment norms.

The sessions had presentations by Mr Nachiket Mor, Mr Vinod Rai, Prof V S Vyas and finally Shri P Chidambaram, Union Minister for Finance.

6.1 Mr Nachiket Mor, Executive Director, ICICI Bank

In his presentation, Mr Mor drew the attention of the house to the increasing interest of the private sector banks in the area of mF. He argued that the standardised models deployed by banking institutions would only work in the urban environment, it would not hold good for the rural

areas. The ICICI Bank perceives that the mFIs can be better purveyors of credit services under the conditions of information asymmetry, adverse selection, moral hazards and related supervision problems that are widely prevalent in rural areas. The role of the local player is pertinent in the selection and supervision problems. In India, there are around 700 to 800 mFIs, less than 40 of them with a significant outreach. And ideally we think there should be around 200-300 mFIs serving somewhere between half-a-million to a million clients.

He demonstrated in the course of his presentation, the importance of the partnership model and securitisation deals, furthered by the ICICI bank in this sector. With mFIs themselves mobilising deposits in certain regions, Mor argues, the same would result in huge portfolio risks, for any specific region can be subject to hazardous economic or geographic risks, which would create chaos for the mFI concerned. In fact, the co-operatives were confronted with the same problem: a concentrated portfolio produces concentrated risks and is more vulnerable to local shocks. In this sense, national diversification of the risks is a superior alternative. It is here that the partnership model, proposed by the ICICI bank, assumes importance.

Given the possibility that the bank could, on one day, retreat from the field of mF, the mFIs may be at a risk. Towards coping up with that risk, he suggested the creation of a credit bureau, which through detailed personal identification numbers would go a long way in even offering interest rate concessions to creditworthy borrowers. The idea of a credit bureau and unique identifier assumes all the more importance, whom one engages in credit lending in the urban areas, where the social structures that determine group lending are not present. He ended his presentation, giving a call to the members in the sector to put their heads together and pursue the idea of a credit bureau, rather than waiting for the government to take the initiative.

6.2 Mr Vinod Rai, Additional Secretary, Ministry of Finance, Govt of India

Mr Vinod Rai said that one of the most important reasons behind the low offtake of credit, particularly in the housing sector, had been the lack of proper land records. Innovative experiments undertaken in Karnataka of computerising all land documents through the Bhoomi programme is significant in this regard.

He cautioned against any moves that would bring about interest rate ceilings in the mF sector. For the inherent strength of the sector had been in its ability to get out of the web of the subsidy syndrome. There were a lot of lessons that the government could learn from the partnership model proposed by the ICICI bank, he remarked. He concluded that only that regulatory structure would be optimal for the mF sector, which would cocoon and foster the growth of the sector.

6.3 Prof V S Vyas, Chairman, Institute of Development Studies, Jaipur

Prof Vyas, in his presentation, regretted the inability of the public sector banks to reach out to the poorer sections of the society in the rural areas, despite this being one of the forces behind nationalisation. There are three main reasons given by the bankers why they have not been able to reach such a large number of clientele: poor state of infrastructure, high risks associated with lending and the huge transactions costs. The first of the same could have been true long back, but not with the connectivity and communications revolution. He argued that we ought to have a multi-agency approach, the breakthrough made by the bank-SHG programme notwithstanding, the mFIs ought to be promoted through proper legislative support. Some element of regulation would be necessary, if the mFI concerned is to tap deposits from the public. The main reason for insistence on regulation is for assuring transparency and accountability. As far as

interest rates are concerned, Prof Vyas argued that, if the interest rates charged in the mF sector were higher than the cost of capital and charge on services put together, then the issue ought to be seriously looked into. As far as innovative products is concerned, the sector has been able to provide many and hence could be considered to be clearly dynamic.

6.4 Shri P Chidambaram, Hon'ble Finance Minister, Government of India

Clearly reflective of the pertinence of the sector in policymaking, was the encouraging presence of Shri P Chidambaram, the Minister of Finance, GoI at the final session.

The minister reminded the audience that there were at least two policy statements laid down by the government, which are important for the mF sector. Firstly, "the govt. will bring about a major expansion in schemes for mF based on self-help groups particularly, in the backward and ecologically fragile areas of the country"(*National Common Minimum Program of the UPA Govt, 2004)*. In the previous budget speech, last July, it was observed, that self-help groups should graduate from consumption to production credit for starting micro enterprises. According to the NSS survey, 60% of our populations do not have access to deposit products, and 80% of the population does not have access to credit products, which means the bulk of India's population remains unbanked. It is not that they are not bankable, time and again it has been proved that the very poor are creditworthy, responsible and reliable borrowers and would repay unless exceptional circumstances arise.

Appreciative of the demands raised by Ms Bhatt, the minister lauded the activities of the sector in improving the lot of the poor. Cautioning against the clamour for regulation, the minister argued that the flexibility of the sector would get negatively affected, if brought under the regulatory umbrella. Nonetheless, he yielded that only deposit-taking mFIs should be put under surveillance, lest the flexibility required for furthering developmental activities would get nipped in the bud. He wanted the sector to formally chart out the modalities of the MFDRA, before any decision in this regard could be taken. The minister drew attention to the fact that the banks were depositing far more than mandatory, in government securities (SLR). In the wake of liquidity being available in the system, some efforts have to be made to tap the resources for the welfare of the poor. He suggested that only those mFIs that were rated should be allowed to take deposits and that the mFIs should be ready to shoulder the responsibility of creating capacities in the SHGs and undertake the responsibility of credit-rating them.

In fact, the two-day SIDBI- Sa-Dhan Conference proved to be an important milestone in the history of credit in India. In setting the tone for mainstreaming mF and initiating steps towards concretising the demands for a legal and regulatory framework, the Conference was indeed successful. In fact, the mF sector in India is at a new point of inflexion.

SIDBI SA-DHAN POLICY CONFERENCE ON

"Financial Services Accessibility and the Poor:
Need for Facilitating Regulatory Environment"
19 - 20 January, 2005, India Habitat Centre, New Delhi

SESSION PLAN

Time	Session/ Resource Person
DAY I	
09:00 - 09:30	**Registration**
09:30 - 09:45	Introduction to the Conference , Mathew Titus, Executive Director, Sa-Dhan
09:45 – 10:00	Welcome Address, N Balasubramanian, CMD, SIDBI
10:00 – 10:15	Special Address, V K Chopra, CMD, Corporation Bank
10:15 - 10:30	Key Note Address, Ela R Bhatt, Chairperson, Sa-Dhan
10:30 – 10:45	Inaugural Address by the Chief Guest, Dr Arjun Sengupta, Chairman, National Commission on Enterprises in the Unorganised & Informal Sector, Government of India
10:45 - 11:00	***Tea Break***
11:00 - 12:30	**TECHNICAL SESSION I**
	Growth of Microfinance: Issues and Challenges, CHAIR: Dr Arjun Sengupta
11:00 - 11:15	M. Udaia Kumar, Managing Director, SHARE Microfin Ltd.
11:15 – 11:30	K Narender, Chief Executive, Kalanjiam Foundation
11:30 – 11:50	Manuel Thedim , Director, Institute of Studies of Work and Society (IETS), Brazil
11:50– 12:10	S Narayan, Former Chief Economic Advisor to the Prime Minister
12:10 – 12:30	Summing Up by the Chair
12:30 – 13:30	***Lunch***
13:30 - 15:30	**TECHNICAL SESSION II**
	Facilitating Legal and Regulatory Framework, CHAIR: Dr Rakesh Mohan, Secretary, Economic Affairs, Government of India
13:30 – 13:50	T K Banerjee, Member, Insurance Regulatory and Development Authority
13:50 - 14:10	Vijay Mahajan, Managing Director, BASIX
14:10 - 14:40	M R Umarji, Chief Advisor, Legal, Indian Banks Association
14:40 - 15:00	Amaro Luiz De Oliviera Gomes, MD, Financial System Regulation Dept, Central Bank of Brazil
15:00 - 15:30	Open House Discussion
15:30 – 15:45	Summing Up by the Chair
15:45 – 16:00	***Tea Break***

16:00 - 17:30	**TECHNICAL SESSION III**
	Governance and Prudential Norms, CHAIR: Mrs Ranjana Kumar, Chairperson, NABARD
16:00 - 16:15	A Vikraman, Chief General Manager, SIDBI
16:15 -16:30	Sanjay Sinha, Executive Director, Micro Credit Rating International Limited (M-CRIL)
16:30 -16:45	Nomasa Motshegare, Manager, Accreditation and Compliance Division, MFRC, South Africa
16:45 - 17:00	Sitaram Rao, Chief Executive Officer, Swayam Krishi Sangam (SKS)
17:00 – 17:15	Rebecca Black, Director, Economic Growth Office, USAID
17:15 – 17:30	Open House Discussion
17:30 – 17:45	Summing Up by the Chair
DAY-II	
	Recap of Day-I, Achla Savyasaachi, Sa-Dhan
9:15- 11:15	**TECHNICAL SESSION IV**
	Developmental Challenge of Supervision, CHAIR: Mr G C Chaturvedi, Joint Secretary, Ministry of Finance, Government of India
9:15 – 9:30	Jayashree Vyas, Managing Director, SEWA Bank
9:30 - 9:45	Ricardo P Lirio, Managing Director, Supervision & Examination, Central Bank, Philippines
9:45 – 10:00	V Raghunathan, Chief Executive Officer, GMR Foundation
10:00 -10:15	A Anantha Krishna, Chairman, RRB, Vishakha
10:15 –10:30	Jamie Aristotle B Alip, CMD, CARD Mutually Reinforcing Institutions, Philippines
10:30 – 11:00	Open House Discussion
11:00 - 11:15	Summing Up by the Chair
11:15 – 11:30	***Tea Break***
	TECHNICAL SESSION V
	MICROFINANCE BILL 2005 – A Way Forward, CHAIR: Smt Ela R Bhatt, Chairperson, Sa-Dhan
11:30 -11:45	Nachiket Mor, Executive Director, ICICI Bank
11:45 – 12:00	N Balasubramanian, CMD, SIDBI
12:00 – 12:15	Vinod Rai, Additional Secretary, Ministry of Finance, Government of India
12:15 - 12:30	V S Vyas, Chairman, Institute of Development Studies, Jaipur
12:30 - 13:00	Special Address by Shri P Chidambaram, Hon'ble Finance Minister, Government of India
13:00 - 13:30	**Vote of Thanks, SIDBI & Sa-Dhan**
13:30 – 13:45	**Lunch**

LIST OF PARTICIPANTS

Sl No	Name	Designation	Organisation
		Chairs and Resource Persons	
1.	Dr Arjun Sengupta	Chairman	National Commission on Enterprises in the Unorganised Sector
2.	Dr Rakesh Mohan	Secretary, Dept of Economic Affairs	Ministry of Finance
3.	Mrs Ranjana Kumar	Chairperson	NABARD
4.	Mr G C Chaturvedi	JS (Banking &Insurance)	Ministry of Finance
5.	Mrs Ela R Bhatt	Chairperson	Sa-Dhan
6.	Mr Vinod Rai	Additional Secretary	Ministry of Finance
7.	Mr V K Chopra	CMD	Corporation Bank
8.	Mr A Anantha Krishna	Chairman	Sri Visakha Grameena Bank
9.	Professor V S Vyas	Chairman	Professor Emeritus Institute of Development Studies
10.	Dr S Narayan	Formerly, Chief Economic Advisor to the Prime Minister	
11.	Mr M R Umarji	Chief Advisor - Legal	Indian Banks' Association
12.	Mr V Raghunathan	President	ING Vysya Bank Ltd
13.	Ms Rebecca Black	Director	USAID
14.	Mr Sitaram Rao	CEO	SKS Microfinance
15.	Mr Sanjay Sinha	Managing Director	M-CRIL
16.	Mr M Udaia Kumar	Managing Director	SHARE MICROFIN LIMITED
17.	Mr Nachiket Mor	Executive Director	ICICI Bank Ltd
18.	Mr T K Banerjee	Member	IRDA
19.	Mr N Balasubramanian	CMD	SIDBI
20.	Mr A Vikraman	Chief General Manager	SIDBI
21.	Mr Vijay Mahajan	Chief Executive Officer	BASIX
22.	Ms Jayashree Vyas	Managing Director	SEWA Bank
23.	Mr K Narender	Chief Executive	KALANJIAM FOUNDATION
		International Resource Persons	
24.	Mr Amaro Luiz De	Head of Department	Banko Central Do Brasil,
	Oliveira Gomes		Brazil
25.	Mr Manuel Thedim	Director	Institute De Estudos (IETS), Brazil
26.	Dr Jaime Aristotle B Alip	Chairman & Managing Director	Centre for Agriculture & Rural Development, Philippines
27.	Ms Nomsa Motshegare	Accreditation & Compliance Manager	Micro Finance Regulatory Council, South Africa
28.	Mr Rieardo P Lirio	Managing Director	Central Bank of The Philippines
		Government	
29.	Mr M K Khanna	Principal Secretary, Panchayati Raj & Rural Development	Govt of Rajasthan
30.	Mr K K Gupta	Dy Chief Executive Officer, KVIC	Govt of India
31.	Ms Neelam Nath	Jt Secretary, NCE	Govt of India
32.	Dr K P Kannan	Member, NCE	Govt of India

33.	Mr G Srinivasan	Cheif General Manager	RESERVE BANK OF INDIA
34.	Mr B Karjee	General Manager	RESERVE BANK OF INDIA
Donors			
35.	Mr Marie-Luise Haberberger	GTZ-Program Leader/ Chief Advisor	GTZ
36.	Mr Ajit N Kanitkar	Programme Officer	SDC
37.	Ms Moutushi Sarma	Sr Deputy Program Manager	DFID
38.	Mr Alay Barah	Director	AIF
39.	Mr Arindam Marti	Deputy Country Director	SDC
Banking & Insurance			
40.	Ms Priya Basu	Sr Financial Analysist	The World Bank
41.	Mr Niraj Verma	Finacial Specialist	The World Bank
42.	Ms Mythili Ravi	Financial Specialist	Asian Development Bank
43.	Mr J C Mishra	Gen Manager	NABARD
44.	Mr Prasanta Das	Gen Manager	NABARD
45.	Mr Krishan Jindal	Deputy General Manager	NABARD
46.	Mr Amitabh Lall	Asstt General Manager	NABARD
47.	Ms Moumita Sen Sarma	Vice President	ABN AMRO Bank N V
48.	Mr Prabhat Rao	Regional Manager	HDFC BANK LTD
49.	Ms Divya Gulati	Relationship Manager	HDFC BANK LTD
50.	Mr Vinay Khare	Deputy Manager	UTI Bank
51.	Ms Rupalee Ruchismita	Manager, SIG	ICICI Bank Ltd
52.	Mr Puneet Gupta	SIG	ICICI Bank Ltd
53.	Mr Ravinder Yadav	Agriculture & Microcredit Cell	ORIENTAL BANK OF COMMRECE
54.	Mr T M Lakshmi Kanthan	Deputy Gen Manager	Corporation Bank
55.	Mr Nilesh Mayekar	Officer- Public Relation	Corporation Bank
56.	Mr Piyush Kumar	Assistant Manager-Rural	Tata AIG Life Insurance Company Ltd
Members of both SIDBI & Sa-Dhan			
57.	Mr Peter Palaniswami	General Secretary	SHEPHERD
58.	Mr Swapnil Dube		CECOEDECON
59.	Mr G V V Satyanarayan	Credit Officer	The Payakaraopeta Women's Mutually Aided Cooperative Society
60.	Mr A L Narsimha Murthy	Secretary	GRAMA SIRI
61.	Dr L H Manjunath	Executive Director	SKDRDP
62.	Mr Amitava Banerjee	Project Director	BHORUKA CHARITABLE TRUST
63.	Mr A K Tikendrajit Singh	Chief Organizer	Youth Volunteers Union
64.	Dr Mahfuza Rahman	Executive Director	RGVN
65.	Ms Aarti Wadhwa	Programme Officer	FWWB
66.	Mr A K Maity	Secretary	Village Welfare Society (VWS)
67.	Mr R Sowmithri	CEO	Sarvodaya Nano Finances Ltd
68.	Dr N Sethuraman	Founder President	MAHASEMAN
69.	Mr C Joslin Thambi	Director	BWDA
70.	Dr Rampal Bisht	Project Manager	Bhoruka Charitable Trust
71.	Mr K Paul Thomas	Executive Director	ESAF

72.	Ms Archana Rao	Jt Finance Coordinator	BAIF
73.	Ms Nirmala Buch	President	Mahila Chetna Manch
74.	Ms Vinatha M Reddy	CEO	GRAMEEN KOOTA
75.	Mr K K Suresh	COO	Grameen Koota
76.	Mr J S Tomar	Managing Director	CASHPOR INDIA
77.	Mrs Santosh Vyas	Chairperson	JANODAYA PUBLIC TRUST
78.	Mr Probir Bose	Secretary	GDS
79.	Mr C S Ghosh	Executive Director	Bandhan
80.	Mr Amar Chand Purohit	Chief Executive	Pushtikar Laghu Vyaparik Pratishtan Bachat & Sakh Sahakari Samiti Ltd
81.	Mr Ganesh Pandey	Convener	Shramik Bharti
82.	Mr Govind Dash	Secretary	GRAM UTTHAN
83.	Mr Shankar Datta	Managing Director	INDIAN GRAMEEN SERVICES
84.	Mr Girija Satish	Executive Director	NBJK
85.	Mr G Dasaratha Reddy	President	Acts
86.	Dr Ramesh Bellamkonda	Project Director	BSS
87.	Mr Kapilananda Mondal	Founder & C E O	VSSU
89.	Mrs Vidya Sravanti	Managing Director	Asmitha Microfin Ltd
90.	Mr V Nagaraju	Superintendent	Rashtriya Seva Samithi
		Sa-Dhan Members	
91.	Mr Ambarish Singh	Project Co-ordinator	PANI
92.	Mr Mahendra Garcha	Finance Consultant	DST
93.	Mr George K John	Sr Manager	ESAF
94.	Mr Gopal Ch Baidya	Secretary	KDS
95.	Mr Kuldeep Maity	Asstt Secretary	VWS
96.	Mr Dhandapani	Executive Director	MAHASEMAN
97.	Mr Vipin Sharma	Program Director	CARE India
98.	Ms Rewa Mishra	Policy & Research Manager	CARE India
99.	Mr Murari M Choudhry	Executive Director	NEEDS
100.	Ch K Bhanja Deo	Credit Manager	ADHIKAR
101.	Ms Sudha Rani Tummala	Advocacy officer	APMAS
102.	Ms Kalpana Pant	Project Coordinator	CHAITANYA
103.	Mr R Murali	Chief Functionary	MARI
104.	Mr Kedar Choudhury	Secretary	DSS
105.	Mr Asish Kr Sahu	Project officer	BISWA
106.	Mr Pradeep Behera	Secretary	ADARSA
107.	Ms Sarita Singh	Finance Co-ordinator	SEWA Bharat
108.	Mr C S Reddy	Chief Executive officer	APMAS
109.	Mr Jai Pal Singh	Executive Director	ARAVALI
110.	Mr Ashwini Kr Singh		MARGDARSHAK
111.	Dr R Viji T Solomon	Executive Director	ECOLOF
112.	Mr Anil K Singh	Chief Executive Officer	NEED
113.	Ms F B Vanaja Charly	Managing Director	New Life

114.	Mr Nilotpal Pathak	Senior Executive	M-CRIL
115.	Ms Ela R Bhatt	Chairperson	SEWA Bank
116.	Mr V Mohan	Manager	Thirumalai Charity Trust
117.	Dr Anjana Borkakati	Managing Director	Prochesta
118.	Mr Munish Kumar	Program officer	ASK
119.	Mr Praful Kr Sahoo	Chairman	CYSD
120.	Mr V Satyamurti	Chief Executive Officer	AIAMED
121.	Dr Milind S Bokil	Head	Development Support Team
122.	Mr D Thyagarajan	Director	CRISIL Ltd
123.	Mr Rabindra Singh	Project Coordinator	SUPPORT
124.	Ms Manpreet Kaur	Sr Program officer	INDCARE TRUST
125.	Mr Parashuram Nayak	Former Gen Manager	CYSD
126.	Mr Rakesh Kumar		Centre for Promoting Sustainable Livelihood
127.	Mr V Paul Raja Rao	Secretary & Executive Director	BIRDS
128.	Mr P Maheswara Reddy	Director	BIRDS
		Others	
129.	Mr Luis A Balduino	Counsellor for Economic	Embassy of Brazil
130.	Mr Gautam Ivatury	Microfinance Analyst	CGAP
131.	Ms Chandni G Ohri	Program Associate	GRAMEEN FOUNDATION USA
132.	Mr Vishal Mehat		LOK CAPITAL
133.	Ms Priti Kalra		LOK CAPITAL
134.	Ms Sikha Dutta	Executive	PEERLESS
135.	Mr Arjun Roy	Area Manager	PEERLESS
136.	Mr Prabhu Ghate	Consultant	
137.	Dr Rajeev Ahuja	Senior Fellow	ICRIER
138.	Dr Stuti Lall	Prof & Associate Director	Society For Development Studies
139.	Mr Bijita Biswas	Research Associate	Society for Development Studies
140.	Mr Praveen Kumar	Research Scholar	Centre for the Study of Law & Governance
141.	Mr S Krishnakumar	Lecturer, Dept of Economics	Sri Venketswara College University of Delhi
142.	Mr Joy Deshmukh-Ranadive	Senior Fellow	Centre for Woman's Development Studies
143.	Mr Sanjeev Bhardwaj	Director	Jan Shikshan Santhan Prayas
144.	Dr Satpal Singh	Research Analyst	National Institute of Urban Affairs
145.	Mr Vineet Rai	Chief Executive Officer	Intellecap
146.	Mr T F Thekkekara, IAS	Managing Director	MAVIM
147.	Dr Pradip Kr Sarmah	Executive Director	Center for Rural Development
148.	Dr Rajesh Kumar	Executive Director	SPYM
149.	Mr Donald Peak	Managing Director	ACTIS
150.	Mr Subrat Kr Singhdeo	Executive Director	Madhyam Foundation
151.	Mr Nagendra Acharya	Program Director	Madhyam Foundation
152.	Mr Atish Kr Mandal		HERITAGE WORLDWIDE
153.	Mr Abhay Nath Jha	Chairman	SEEDS

154.	Mr Ashish Gupta	Director	NAVJYOTI
155.	Mr Ernest Paul A Midde	Scretaty & CEO	SAADHANA Microfin Society
156.	Mr V Nagarajan	Chartered Accountant	V NAGARAJAN & CO
157.	Ms Harmeet Soni	Programm Officer	International Labour Org
158.	Mr VPN Rao	Deputy Gen Manager	JAVA SOFTECH Pvt Ltd
159.	Mr Ranjan Sharma	Executive	CII- IHC
160.	Ms Suneetha Dasappa Kacker	Urban Specialist	ECOMART INDIA LTD
161.	Mr Suresh		NCTE
162.	Ms Ritu Joshi	Project Officer	Rural Development Department
163.	Mr Devinder Mohan	Chartered Accountants	D Mohan & CO
164.	Mr Rohit Mangotra	COO	Ekgaon
165.	Mrs Madhuri Lele	CEO	Services & Solutons Inc.
166.	Dr Jean-Joseph Boillot	Financial Counsellor	Economic Mission
167.	Mr Ashish Goel	Consultant	MCKINSEY & COMPANY
168.	Mr Sophie Duval	Asstt Secorielle	Mission Economique
		Media	
169.	Mr P C Sharma	Edit, Supervisor	DOORDARSHAN NEWS
170.	Mr V P Chopra	Editor	DELHI SHOPPING
171.	Mr T M Danial	Cameraman	SAHARA SAMAY
172.	Mr Rangnath Tiwari	Photographer	SAHARA INDIA MEDIA & ENTERTAINMENT
173.	Mr Raj Kumar Ray	Senior Banking Correspondent	THE PRESS TRUST OF INDIA
174.	Mr Ashish Aggarwal	Principal Correspondent	BUSINESS STANDARD
175.	Mr Rohit Saran	Deputy Editor	INDIA TODAY
176.	Mr Adhikari Singh	Special Correspondent	NISHPAKSH SAMACHAR Jyoti
177.	Dr R L Gupta	Editor-in-Chief	HALAT-E-WATAN
178.	Mr Indivjal Dhasmanaf	Journalist	PTI
179.	Mr Ashish	Journalist	ZEE NEWS
180.	Mr Shamik Dasgupta	Journalist	Economic Times
181.	Mr Rajiv Srivastva	Cameraman	T V Today, Aaj Tak
182.	Mr Rajesh Singh	Repertoire	CNBC
183.	Mr Shidhir Sinha	Special Correspondent	TV Today Network Limited
184.	Mr Kartik Goyal	Journalist	Bloomberg
185.	Mr Shadab Siddiqui	Correspondent	INDIA TV
186.	Mr Shib Prosad Biswas	Cameraman	INDIA TV
187.	Mr Ashok Dasgupta	Deputy Editor & Chief of Bureau	The Hindu-BUSINESS LINE
188.	Mr Gunjan Pradhan	Repertoire	Indian Express Group
189.	Mr Mahua Venkatesh	Senior Correspondent	Indian Express Group
190.	Mr Surya Kumar Upadhyay	Sr Repertoire / CE	EENADU TELEVISION
191.	Mr Nivedita Mukharjee	Principal Correspondent	Malayala Manorama

APPENDIX-3

The Union Budget 2005-06 presented by Honourable Finance Minister Shri. P Chidambaram had a detailed section (para 52-54) on the Microfinance sector with very important proposal. The reproduced version of para 52-54 is given in the box for further reading

*"**Micro Finance***

52. The programme of linking Self Help Groups (SHGs) with the banking system has emerged as the major micro-finance programme in the country. 560 banks including 48 commercial banks, 196 RRBs and 316 cooperative banks are now actively involved in the programme. I propose to enhance the target for credit-linking in the next fiscal from 2 lakh SHGs to 2.5 lakh SHGs.

53. At present, micro finance institutions (MFIs) obtain finance from banks according to guidelines issued by RBI. MFIs seek to provide small scale credit and other financial services to low income households and small informal businesses. Government intends to promote MFIs in a big way. The way forward, I believe, is to identify MFIs, classify and rate such institutions, and empower them to intermediate between the lending banks and the beneficiaries. Commercial banks may appoint MFIs as "banking correspondents" to provide transaction services on their behalf. Since MFIs require infusion of new capital, I propose to re-designate the existing Rs.100 crore Micro Finance Development Fund as the "Micro Finance Development and Equity Fund", and increase the corpus to Rs.200 crore. The fund will be managed by a Board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The Board will be asked to suggest suitable legislation, and I expect to introduce a draft Bill in the next fiscal year.

54. I propose to request RBI to open a window to enable qualified NGOs engaged in micro-finance activities to use the External Commercial Borrowing (ECB) window. Detailed guidelines containing necessary safeguards will be issued by RBI."

The Annual Credit Policy Statement for 2005-06 Reserve Bank of India

The paragraph 83 of Annual credit policy statement of RBI carried significant statements on the microfinance sector and same is given in the box.

(b) Micro-finance

83. The programme of linking self-help groups (SHGs) with the banking system has emerged as the major micro-finance programme in the country. Accordingly, the Union Budget has proposed to enhance the annual target of credit linkage to 2.5 lakh SHGs during 2005-06. As at March 2005, over 14 lakh SHGs were linked to banks and total flow of credit to these SHGs was over Rs.6,300 crore. NABARD and banks have set a target of linking additional 5.85 lakh SHGs to banks by end-March 2007. In order to give further fillip to micro-finance movement, the following measures have been initiated:

- *The Reserve Bank has enabled non-governmental organisations (NGOs) engaged in micro-finance activities to access ECBs up to US $ 5 million during a financial year for permitted end-use, under automatic route, as an additional channel of resource mobilisation.*
- *As a follow-up of the Budget proposals, modalities for allowing banks to adopt the agency model by using the infrastructure of civil society organisations, rural kiosks and village knowledge centres for providing credit support to rural and farm sectors and appointment of micro-finance institutions (MFIs) as banking correspondents are being worked out.*

External Commecial Borroving Guidelines (2005)

The RBI notification RBI/2004-05 / 434 (A.P., (DIR Series) Cirular No. 40) on the ECB Guideline is given for ready reference

To

All banks authorised to deal in foreign exchange

Madam/Sirs,

External Commercial Borrowings (ECB) for Non-Government Organisations (NGOs) engaged in micro finance activities under Automatic Route

Attention of Authorised Dealers is invited to the announcement in the Union Budget for 2005-06 regarding access to ECB by qualified NGOs engaged in micro finance activities.

2. Accordingly, it has been decided that NGOs engaged in micro finance activities may be permitted to raise ECB up to USD 5 million during a financial year for permitted end-use, under Automatic Route. Detailed guidelines on ECB for micro finance activities with necessary safeguards are set out below.

3. The concerns emanating from ECB for NGOs engaged in micro finance activities can be categorized in to four types: (i) whether the borrower is genuine. (ii) whether ECB funds are utilised for genuine purpose, (iii) credentials of the overseas lender of ECB and (iv) systemic implications of such ECB flows including the risks of foreign currency borrowing by such entities. The following framework addresses these issues.

4. *Eligible Borrower :* NGOs engaged in micro finance activities would be eligible to avail ECB. Such NGO (i) should have a satisfactory borrowing relationship for at least 3 years with a scheduled commercial bank authorised to deal in foreign exchange and (ii) would require a certificate of due diligence on 'fit and proper' status of the board/committee of management of the borrowing entity from the designated Authorised Dealer (AD).

5. *Permitted End-use :* The designated AD must ensure that the ECB proceeds are utilised for lending to self-help groups or for micro-credit or for bonafide micro finance activity including capacity building.

6. *Recognised Lender :* ECB funds should be routed through normal banking channel. ECB from following internationally recognised sources i.e. (i) international banks, (ii) multilateral financial institutions, (iii) export credit agencies may be availed. Furthermore, overseas organisations and individuals complying with following safeguards may lend ECB.

   (i) **Overseas organisations** planning to extend ECB would have to furnish a certificate of due diligence from an overseas bank which in turn is subject to regulation of host-country regulator and adheres to Financial Action Task Force (FATF) guidelines to the designated AD. The certificate of due diligence should comprise the following (i) that the lender maintains an account with the bank for at least a period of two years, (ii) that the lending entity is organised as per the local law and held in good esteem by the business/local community and (iii) that there is no criminal action pending against it.

   (ii) **Individual Lender** has to obtain a certificate of due diligence from an overseas bank indicating that the lender maintains an account with the bank for at least a period

of two years. Other evidence /documents such as audited statement of account and income tax return which the overseas lender may furnish need to be certified and forwarded by the overseas bank. Individual lenders from countries wherein banks are not required to adhere to Know Your Customer (KYC) guidelines are not permitted to extend ECB.

7. *Amount of ECB* : With a view to ensure minimization of systemic risk, the maximum amount of foreign currency borrowings of a borrower is capped at USD 5 million during a financial year.

8. Other ECB Parameters : All other ECB parameters such as minimum average maturity, all-in-cost ceilings, restrictions on issuance of guarantee, choice of security, parking of ECB proceeds, prepayment and refinancing of ECB under the Automatic Route should be complied with. The designated AD has to ensure at the time of draw down that the forex exposure of the borrower is hedged.

9. Reporting Arrangements: Borrowers are required to comply with the reporting arrangements of ECB such as submission of Form 83 through the designated AD to the Reserve Bank for allotment of loan registration number prior to draw down of the loan and filing of monthly ECB-2 Return.

10. These amendments to ECB policy will come into force with immediate effect and will be subject to review from time to time.

11. Necessary amendments to the Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000 dated May 3, 2000 are being issued separately.

12. Authorised Dealer banks may bring the contents of this circular to the notice of their constituents and customers.

13. The direction contained in this circular has been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions / approvals, if any, required under any other law.

The RBI notification (RBI / 2005 / 134) RPCD. No. Plan BC 21/04.09.22/2004-05 on the Master Circular on Microfinance is given for ready reference

Master Circular on Micro Credit

1. Micro Credit

Micro Credit has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. Micro Credit Institutions are those, which provide these facilities.

2. The Self Help Group (SHG)- Bank Linkage Programme Despite the vast expansion of the formal credit system in the country, the dependence of the rural poor on moneylenders continues in many areas, especially for meeting emergent requirements. Such dependence is pronounced in the case of marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks. For various reasons, credit to these sections of the population has not been institutionalized. The studies conducted by NABARD, APRACA and ILO on the informal groups promoted by non governmental organizations (NGOs) brought out that Self-Help Savings and Credit Groups have the potential to bring together the formal banking structure and the rural poor for mutual benefit and that their working has been encouraging.

The NABARD accordingly launched a pilot project for the purpose and supported it by way of refinance. It also provided technical support and guidance to the agencies participating in the programme. The following criteria would broadly be adopted by NABARD for selecting SHGs:

a) The Group should be in existence for at least six months.
b) The Group should have actively promoted the savings habit.
c) Groups could be formal (registered) or informal (unregistered).
d) Membership of the group could be between 10 to 25 persons.

The advances given by the banks to the groups were treated as advances to "weaker sections" under the priority sector. While the norms relating to margin, security as also scales of finance and unit cost would broadly guide the banks for lending to the SHGs, deviations therefrom could be made by banks, where deemed necessary. These relaxations in margin, security norms, etc. were only in respect of SHGs to be financed under the pilot project.

NABARD, vide its circular letter No.NB.DPD.FS.4631/92-A/91-92, dated 26 February, 1992, issued detailed operational guidelines to banks for implementation of the project. Quick studies conducted by NABARD in a few states to assess the impact of the linkage project brought out encouraging and positive features like increase in loan volume of the SHGS, definite shift in the loaning pattern of the members from non-income generating activities to production activities, nearly 100% recovery performance, significant reduction in the transaction costs for both the banks and the borrowers, etc., besides leading to gradual increase in the income level of the SHG members. Another significant feature observed in the linkage project was that about 85% of the groups linked with the banks are formed exclusively by women.

With a view to studying the functioning of SHGs and NGOs for expanding their activities and deepening their role in the rural sector, in November 1994, RBI constituted a Working Group comprising eminent NGO functionaries, academicians, consultants and bankers under the

Chairmanship of Shri S.K. Kalia, the then Managing Director, NABARD.

As a follow up of the recommendations of the Working Group, banks were advised in April 1996 as under:

a) SHG Lending as Normal Lending Activity

The SHGs linkage programme would be treated as a normal business activity of banks. Accordingly, the banks were advised that they may consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level. They may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff and implement it as a regular business activity and monitor and review it periodically.

b) Separate Segment under priority sector

In order to enable the banks to report their SHG lending without difficulty, it was decided that the banks should report their lending to SHGs and/or to NGOs for on-lending to SHGs/members of SHGs/discrete individuals or small groups which are in the process of forming into SHGs under the new segment, viz. 'Advances to SHGs' irrespective of the purposes for which the members of SHGs have been disbursed loans. Lending to SHGs should be included by the banks as part of their lending to the weaker sections.

c) Inclusion in Service Area Approach

Banks may identify branches having potential for linkage and provide necessary support services to such branches and include SHG lending within their Service Area Plan. Keeping in view the potential realisability, the Service Area Branches may fix their own programme for lending to SHGs as in the case of other activities under the priority sector.

With a view to enabling the bank branches to get the benefit of catalytic services of NGOS, the names of NGOs dealing with the SHGs would be indicated on a block-wise basis in the "Background Paper for Service Area Credit Plans". The Service Area branch managers may have constant dialogue and rapport with the NGOs and SHGs of the area for effecting linkage. If a NGO/SHG feels more confident and assured to deal with a particular branch other than Service Area branch and the particular branch is willing to finance, such a NGO/SHG may, at its discretion, deal with a branch other than the Service Area branch. The lending to SHGs by banks should be included in the LBR reporting system and reviewed, to start with at SLBC Level. However, it has to be borne in mind that the SHG linkage is a credit innovation and not a targeted credit programme.

d) Opening of Savings Bank A/c.

The SHGs registered or unregistered which are engaged in promoting savings habits among their members would be eligible to open savings bank accounts with banks. These SHGs need not necessarily have already availed of credit facilities from banks before opening savings bank accounts.

e) Margin and Security Norms

As per operational guidelines of NABARD, SHGs are sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). Experience showed that group dynamics and peer pressure brought in excellent recovery from members of the SHGS. Banks were advised that the flexibility allowed to the banks in respect of margin, security norms, etc. under the pilot project would continue to be operational under the linkage programme even beyond the pilot phase.

f) Documentation

Keeping in view the nature of lending and status of borrowers, the banks may prescribe simple documentation for lending to SHGs.

g) Presence of defaulters in SHGs

The defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default

to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

h) Training

An important step in the Linkage Programme would be the training of the field level officials and sensitization of the controlling and other senior officials of the bank. Considering the need and magnitude of training requirements of bank officers/staff both at field level and controlling office level, the banks may initiate suitable steps to internalize the SHGs linkage project and organize exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/ sensitization programmes may be conducted for their middle level controlling officers as well as senior officers.

i) Monitoring and Review of SHG Lending

Having regard to the emerging potential of the SHGs and the relative non-familiarity of the bank branches with lending to SHGS, banks may have to closely monitor the progress regularly at various levels. Further the progress of the programme may be reviewed by the banks at regular intervals. A progress report may be sent to both RBI (RPCD) and NABARD (MCID), Mumbai, in the format as per Annexure, on a half-yearly basis, as on 30 September and 31 March each year so as to reach within 30 days of the half-year to which the report relates.

In order to give a boost to the on going SHG bank linkage programme for credit flow to the unorganised sector, banks were advised in January 2004 that monitoring of SHG bank linkage programme may be made a regular item on the agenda for discussion at the SLBC and DCC meetings.

3. NBFCs engaged in micro-financing activities

The Task Force on Supportive Policy and Regulatory Framework for Microfinance set up by NABARD in 1999 recommended that the policy and regulatory framework should give a fillip to the Self Help Groups (SHGs) or Non-Governmental Organisations (NGOs) engaged in micro-financing activities. Accordingly, it was decided to exempt such NBFCs which are engaged in (i) micro financing activities, (ii) licensed under Section 25 of the Companies Act, 1956 and (iii) which are not accepting public deposits from the purview of Sections 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-IC (transfer of profits to Reserve Fund) of the RBI Act, 1934.

Based on the recommendations of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Vyas Committee), in the Annual Policy Statement for the year 2004-05, it has been announced that, in view of the need to protect the interests of depositors, microfinance institutions (MFIs) would not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.

4. Interest rates

The interest rate applicable to loans given by banks to micro-credit organisations or by the micro-credit organisations to Self Help Groups/member beneficiaries would be left to their discretion.

5. Mainstreaming and enhancing outreach

A Micro Credit Special Cell was set up in RBI to suggest measures for augmenting flow of micro credit as announced in Governor's Monetary and Credit Policy for the year 1999-2000. In the meantime, a Task Force on Supportive Policy and Regulatory Framework for Micro Credit was also set up by NABARD. On the basis of their recommendations, banks were advised to follow the under noted guidelines for mainstreaming micro credit and enhancing the outreach of micro credit providers:

i. The banks may formulate their own model(s) or choose any conduit/ intermediary for extending micro credit.

They may choose suitable branches/ pockets/areas where micro credit programmes can be implemented. It will be useful to start with a selected small area and concentrate fully on the poor in that area and thereafter with the experience gained replicate the arrangement in other selected areas. Micro Credit extended by banks to individual borrowers directly or through any intermediary would be reckoned as part of their priority sector lending.

ii. The criteria for selection of micro credit organisations are not prescribed. It may, however, be desirable for banks to deal with micro credit organisations having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow-up.

iii. Banks may prescribe their own lending norms keeping in view the ground realities. They may devise appropriate loan and savings products and the related terms and conditions including the size of the loan, unit cost, unit size, maturity period, grace period, margins, etc. The intention is to provide maximum flexibility in regard to micro lending, keeping in view the prevalent local conditions and the need for provision of finance to the poor. Such credit should, therefore, cover not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

iv. Micro credit should be included in branch credit plan, block credit plan and state credit plan of each bank. While no target is being prescribed for micro credit, utmost priority is to be accorded to the micro credit sector in preparation of these plans. Micro credit should also form an integral part of the bank's corporate credit plan and should be reviewed at the highest level on a quarterly basis.

v. A simple system requiring minimum procedures and documentation is a pre-condition for augmenting flow of micro credit. Hence, banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse micro credit by delegating adequate sanctioning powers to branch managers. The loan application forms, procedures and documents should be made simple which would help in providing prompt and hassle-free micro credit.

6. Delivery Issues

The Reserve Bank constituted four informal groups in October 2002 to examine various issues concerning micro-finance delivery. On the basis of the recommendations of the groups and as announced in Paragraph 55 of the Governor's Statement on mid-term Review of the Monetary and Credit Policy for the year 2003-04, banks have been advised as under:

i. Banks should provide adequate incentives to their branches in financing the Self Help Groups (SHGs) and establish linkages with them, making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions.

ii. The group dynamics of working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon.

iii. The approach to micro-financing of SHGs should be totally hassle-free and may include consumption expenditures.

List of Circulars consolidated in the Master Circular

Sr. No.	Circular No.	Date	Subject
1.	RPCD.No.Plan.BC.13/PL-09.22/91/92	July 24, 1991	Improving Access of Rural Poor to Banking -Role of Intervening Agencies -Self Help Groups
2.	RPCD.No.PL.BC.120/04.09.22/95-96	April 2, 1996	Linking of Self Help Groups with Banks- Working Group on NGOs and SHGs- Recommendations-Follow up
3	DBOD.No.DIR.BC.11/13.01.08/98	February 10, 1998	Opening of savings bank accounts in the name of Self Help Groups (SHGs)
4	RPCD.No.PL.BC.12/04.09.22/98-99	July 24,1998	Linking of Self Help Groups with Banks
5	RPCD.No.PLAN.BC.94/04.09.01/98-99	April 24,1999	Loans to Micro credit Organizations- Rates of Interest
6	RPCD.PL.BC.28/04.09.22/99-2000	September 30, 1999	Credit Delivery through Micro Credit Organizations/Self Help Groups
7	DNBS. (PD). CC.No.12/02.01/99-2000	January 13, 2000	Amendments to NBFC Regulations
8	RPCD.No.PL.BC.62/04.09.01/99-2000	February 18, 2000	Micro Credit
9	RPCD. No. Plan.BC.42/04.09.22/2003-04	November 3, 2003	Micro finance
10	RPCD.No.Plan.BC.61/04.09.22/2003-04	January 9, 2004	Credit flow to unorganized sector

Micro Credit Progress Report

As at the end of March/September [ ]

Name of the Bank [ ] State [ ]

(All amounts in Rs. '000s)

Part 'A' - Under SHG-Bank Linkage Programme

SHGs maintaining Savings A/c. in the Bank

		No.	Amount
(a)	**Total No. of SHGs**		
(b)	Of which under SGSY & Other Govt.-sponsored schemes		
(a)	**Exclusive Women SHGs**		
(b)	Of which under SGSY & Other Govt.-sponsored schemes		

1. SHGs Financed Directly by the Bank

	No. of SHGs Financed	No. of Members	No. of Beneficiaries	Amount Disbursed	Cumulative					
					No. of SHGs	No. of Members	No. of Beneficiaries	Amount Disbursed	Amount Outstanding	Percentage of Recovery to Demand
(a) **Total No. of SHGs** (b) Of which under SGSY & Other Govt.-sponsored schemes										
(a) **Exclusive Women SHGs** (b) Of which under SGSY & Other Govt.-sponsored schemes										

2. SHGs Financed Directly with NGO's Facilitation

	No. of SHGs Financed	No. of Members	No. of Beneficiaries	Amount Disbursed	Cumulative					
					No. of SHGs	No. of Members	No. of Benefici-aries	Amount Disbursed	Amount Out-standing	Percentage of Recovery to Demand
(a) **Total No. of SHGs** (b) Of which under SGSY & Other Govt.-sponsored schemes										
(a) **Exclusive Women SHGs** (b) Of which under SGSY & Other Govt.-sponsored schemes										

SHGs Financed through the medium of NGOs

		During the Year	Cumulative
No. of NGOs Financed			
No. of Beneficiaries	(a) Women's Groups		
	(b) Men's Groups		
	(c) Under SGSY, etc.		
Loan Disbursed	(a) Women's Groups		
	(b) Men's Groups		
	(c) Under SGSY, etc.		
No. of SHGs Financed by these NGOs	(a) Women's Groups		
	(b) Men's Groups		
No. of NGOs against whom loan is Outstanding			
Amount Outstanding	(a) Women's Groups		
	(b) Men's Groups		
	(c) Under SGSY, etc.		
% of Recovery to Demand	(a) Women's Groups		
	(b) Men's Groups		
	(c) Under SGSY, etc.		

Part 'B' - Other than SHG-Bank Linkage Programme

(All amounts in Rs. '000s)

Intermediaries other than SHGs & NGOs maintaining Savings A/c. in the Bank

Nature of Intermediary *	No.	Amount
(a) **Total**		
(b) Of which under SGSY & Other Govt.-sponsored schemes		

Financing done through Other Intermediaries

Nature of Intermediary *	No.		Loan Disbursed		Amount Outstanding	Percentage of Recovery to Demand
	During the Year	Cumulative	During the Year	Cumulative		
(a) **Total**						
(b) Of which under SGSY, etc.						