

Presentation format

- Macro level interventions by Government
- Micro Finance scenario
- Recent interventions aimed at FI
- Present status – “CRISIL index”
- Nachiket Mor Committee Report

Priority Sector Lending

Priority sector

Sectors which may not get timely and adequate credit in the absence of this special dispensation.

Categories under Priority Sector

- (i) Agriculture – Direct and Indirect
- (ii) Micro and Small Enterprises (MSE)
- (iii) Education
- (iv) Housing
- (v) Export Credit
- (vi) Others

	Categories	Domestic commercial banks / Foreign banks with 20 and above branches (As % of ANBC)	Foreign banks with less than 20 branches (As % of ANBC)
1	Total Priority Sector	40	32
2	Total agriculture	18 (13.5 & 4.5)	No specific target.
3	Advances to Weaker Sections	10	

**Bank's failure to achieve PSL has a cost
Larger of the gap of (1) & (2) plus gap of (3)**

Adjusted Net Bank Credit (ANBC) is Bank credit plus Bond/ Debentures in Non-SLR categories

Direct Finance for Agriculture (13.5%)

- (i) **Loans to individual farmers** [including SHGs or JLGs engaged in Agriculture and Allied Activities, *viz.*, dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture.
- (ii) Loans to corporates including farmers' producer companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, up to an aggregate limit of `2 crore per borrower.
- (iii) Loans to small and marginal farmers - **purchase of land for agriculture**
- (iv) Loans to **distressed farmers** indebted to non-institutional lenders.
- (v) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) ceded to or managed/ controlled by such banks for on lending to farmers for agricultural and allied activities.

MSME Credit - PM's Task Force Recommendations

- (i) 20 % year-on-year growth in credit to micro and small enterprises (MSEs);**
- (ii) 60 % of MSE credit to micro enterprises in three stages viz. 50% in FY 2010-11, 55% in FY 2011-12 and 60% in FY 2012-13;**
- (iii) 10 % annual growth in number of micro enterprise accounts**

Weaker Section under PSL

10% of ANBC

- (a) **Small and marginal farmers;**
- (b) **Artisans, village and cottage industries** where individual credit limits do not exceed `50,000;
- (c) Beneficiaries of **National Rural Livelihood Mission (NRLM);**
- (d) **Scheduled Castes and Scheduled Tribes;**
- (g) Beneficiaries under the Rehabilitation of **Manual Scavengers (SRMS);**
- (h) Loans to **Self Help Groups;**
- (i) Loans to **distressed farmers** indebted to non-institutional lenders;
- (j) Loans to distressed persons other than farmers not exceeding `50,000 per borrower to prepay their debt to non-institutional lenders;
- (k) Loans to **individual women beneficiaries** upto `50,000 per borrower;

Microfinance Institutions

Charitable
Institutions

For Profit
Institutions

Limited Liability
Companies

Informal

Trust

Societies

Section
25 Co.

Community
Based Mutual
benefit Trusts
(MBTs), Trust,
Society

Coope
rative
Societi
es

NBFC

Banks,
Local Area
and
Commerci
al banks

Coope
rative
Bank

Self
Help
Groups

MF Sector in India – Phases of Evolution

Exploratory Phase (1994 – 1999)

- NGO funding
- **Achievement**
 - Alternate credit delivery channel
- **Learning**
 - Perceived high risk
 - Need for CB support
 - Collateral free assistance

Growth Phase (2000 – 2009)

- SIDBI emerging as first lender to MFIs
- Gamut of need based products
- **Achievement**
 - Successful Implementation of National Microfinance Support Programme
 - Need based products
 - Operational & Financial Sustainability of MFIs
 - Capacity Assessment Rating
- **Learning**
 - Need for regulation
 - Transparency
 - Governance

Responsible Lending - 2009 onwards

- Managing growth
- Underserved States increased coverage
- **Achievement**
 - Lenders Forum
 - COCA
- **Learning**
 - Client focused strategies
 - Synergy with stakeholders

Post AP crises - RBI Initiatives

MFIs under Priority Sector Lending

New category of NBFC-MFIs and related guidelines

Fair Practice Code for NBFCs including NBFC-MFIs

Margin cap for all MFIs

Loans to MFIs as PSL

85% qualifying asset and 70% for income generating activities

- (i) **Borrower's income** in rural areas < 60,000/- & non-rural areas < 1,20,000/-.
- (ii) **Loan amount** < 35,000/- initially and 50,000/- in the subsequent cycles.
- (iii) **Total indebtedness** of the borrower should be < 50,000/-.
- (iv) **Tenure of loan** is > 24 months when loan > 15,000/-
- (v) Right to borrower of **prepayment without penalty**.
- (vi) The loan is **without collateral**.
- (vii) Loan is repayable weekly, fortnightly or monthly at borrower's choice.

* MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines', to be eligible to classify these loans as priority sector loans.

- (i) **Margin cap at 12%** for all MFIs.
- (ii) **Interest cap on individual loans at 26% per annum** for all MFIs to be calculated on a reducing balance basis.

Micro Finance Institutions (Development and Regulation) Bill, 2012

To provide a **statutory framework** for the development, promotion, orderly growth and regulation of MFIs & to bring it under a **uniform regulatory framework**

Major provisions

Provides for regulation of MF services subject to registration with RBI

Upper ceiling on Loan amount

Maximum interest rate / cap

Ombudsman

MF Development Funds

State Micro Finance Council

Government's attempts at FI

- **Traditional – expansion of Bank branches;**
- **Increasing ATMs**
- **Direct Benefit Transfer (DBT)**
- **Business correspondents (BCs) & CSPs**
- **IMEF – MFIs**
- **Credit Guarantee Funds – SMEs, Skill & Education, Factoring & MFI?**
- **Nachiket Mor Committee**

MFIs- India Micro Equity Fund

- **“India Microfinance Equity Fund” (IMEF)** of Rs.100 crore was set up in Union Budget 2011-12
- Corpus increased by another Rs.200 crore in 2013-14
- Extending equity or any other form of capital viz., quasi-equity or subordinated debt to
 - Tier – II (having borrowers between 50,000 and 250,000) and
 - Tier – III NBFC MFIs (having less than 50,000 borrowers) and
 - all Non-NBFC MFIs
- In unserved and underserved parts (MFI reach)

Credit Guarantee Funds

- Credit Guarantee Funds for
 - MSE – leverage of 8-10 times
 - Skill Development & Education
 - Factoring -50% cover and Factoring w/o recourse – at least 50% by 5th year
 - MFI ?
- Credit Guarantee Trust

Education - Central Scheme for Interest Subsidy

- Interest subsidy on the interest component during study period + a year or 6 months with job, for economically weaker section – about 3.5 million students benefitted
- Scheme this year has been extended to loans taken prior to 2009 & outstanding – about a million students

Where are we?



CRISIL

A Standard & Poor's Company




CRISIL Inclusix

An index to measure India's Progress on Financial Inclusion

CRISIL Ltd.

- **Is India's first comprehensive measure of financial inclusion in the form of an index**
 - Is a relative index that has a scale of 0 to 100; 100 indicates the ideal state for each parameter
 - Combines 3 critical parameters of banking – branch, deposit, and credit penetration – into one metric
 - Evaluates financial inclusion at the national, regional, state, and district level
- **Employs a robust, transparent, and an easy to understand approach**
 - Methodology is similar to that of other global indices, such as UNDP's Human Development Index
- **Uses non-monetary parameters in its design**
 - Focuses on 'number of people' covered as against the 'amounts' deposited or loaned
- **Is scalable and flexible**
 - Begins with banking services currently; can be extended later to other services and entities

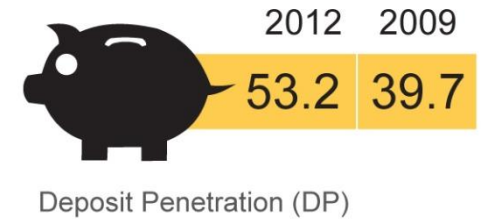
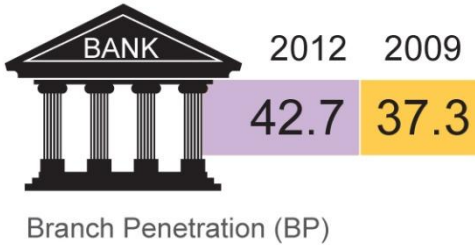
Aggregates 3 parameters to measure financial inclusion

Parameter	Measure	Interpretation
 Branch Penetration (BP)	No. of bank branches/ lakh of population	Access to banking services
 Credit Penetration (CP)	No. of loan accounts/ lakh of population No. of small borrower loan accounts as defined by RBI/ lakh of population No. of agriculture advances/ lakh of population	Access to loan products Access to credit for small borrowers Access to credit for farmers
 Deposit Penetration (DP)	No. of savings deposit accounts/ lakh of population	Access to savings products

Higher the score, higher the level of financial inclusion

All India CRISIL Inclusix Scores

42.8 (2012)	40.1 (2011)	37.6 (2010)	35.4 (2009)
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■ Above Average ■ Below Average

- **All-India CRISIL Inclusix score for 2012 rises the most in three years**
 - At 42.8 (on a scale of 100) it has shown the biggest annual jump of 2.7 points over 2011
- **Clear signs of progress in financial inclusion over past 4 years**
 - CRISIL Inclusix score improved in 34 out of 35 states
- **Encouraging rise in savings bank accounts**
 - Number of savings accounts stood at 7.9 crore (12.6% more than in 2011)
- **Strong performance in agricultural credit accounts growth**
 - Grown at 11.1%; a three year record

Credit to GDP for sectors that contribute 1% or more to GDP, 2012-13				
Sectoral GDP (Rs. Crore)		Sectoral Credit (Rs. Crore)		Credit to GDP
GDP at Current prices, 2012-13	93,21,638	Gross Bank Credit of Scheduled Commercial Banks	48,61,345	52.0%
<i>Of which,</i>				
GDP of Agriculture and allied activities	16,44,834	Credit to Agriculture	5,89,914	35.9%
GDP of Industry	24,36,502	Credit to Industry	22,30,182	91.5%
GDP of Services	52,40,302	Credit to Services	20,41,249	39.0%
GDP contribution of Industry MSMEs	5,10,473	Credit to Industry MSMEs	2,84,348	55.7%
GDP contribution of Service MSMEs	10,97,899	Credit to Service MSMEs	2,77,947	25.3%

Challenge for the formal financial system to provide a strong supply response

NACHIKET MOR COMMITTEE

Reserve Bank of India had, in September 2013, set up a Committee on **Comprehensive Financial Services for Small Business and Low Income Households**, under the Chairmanship of Dr. Nachiket Mor

- The Committee was appointed to propose measures for achieving financial inclusion and how to provide increased access to financial services.
- Final report was submitted on 31st December, 2013.

Terms of Reference

1. To frame a **clear and detailed vision for financial inclusion** and financial deepening in India.
2. To lay down a set of **design principles** that will guide the development of institutional frameworks and regulation for achieving financial inclusion and financial deepening.
3. To **review existing strategies** and develop new ones that address specific barriers to progress and that encourage participants to work swiftly towards achieving full inclusion and financial deepening, consistent with the design principles.
4. To develop a **comprehensive monitoring framework** to track the progress of the financial inclusion and deepening efforts on a nationwide basis.
5. Any other related issue/s the Committee may want to opine on.

FINDINGS....

- Goals of comprehensive financial access need to be pursued in manner that does not end up **threatening the stability** by building up high levels of non-performing assets or impairing the **profitability of the financial institutions** engaged in these tasks.
- Despite the loan waivers a few years ago, more than half the total NPAs on banks' books are attributable to this sector with an NPA ratio that is close to double that of the rest of the asset book.
- Change in approach from one where all the players become clones of each other so as to adhere to one centrally designed blue-print, to one that where each one **focuses on its own differentiated capabilities** and partners with others that bring complementary capabilities to bear on the problem.

- The **Unique Identification (UID) project** - 50 crore Indians covered and rest of the country expected to be covered by 2016.
- RBI has already paved way for **universalizing bank accounts** by linking of UID numbers to KYC norms.
- **National Optical Fibre Network** to all the Gram Panchayats in the country being laid by Govt. (through Bharat Broadband Network).
- 30 million fixed line subscribers and **870 millions mobile phone subscribers** (of which 350 millions in rural areas) – rural no. is growing @ 10% annually.
- Committee explores a no. of ways of using such telecommunication opportunities, benefitting from early experiences of developing countries and European Union which has transformed its payment landscape in recent years.

Vision

- Universal Electronic Bank Account
 - Full Service, Electronic, Safe and Secure
- Universal Access to Payments Points
 - 1 payment point per 0.5 km radius or 15 minute walk
 - Deposit, withdrawals, and transfer
- Sufficient Access to Credit
 - 1 credit point per 3 km radius
 - Credit-GDP ratio of 10% per district
 - Credit-GDP ratio of 10% per significant sector
- Universal Access to Investment and Risk Management
 - Deposit and Investment to GDP Ratio of 15% per district
 - Term Life Sum Assured to GDP ratio of 15% per district
- Right to Suitability
 - Board Approved Suitability Process

Universal Electronic Bank Account

- Universal Electronic Bank Account
 - Full Service, Electronic, Safe and Secure
 - At the time of Aadhaar enrolment
 - For all residents over the age of 18
- Requires documentary Proof of Identity but not of Current Address

On the right path

Way to go.....

But we will do it.....

Thank you