Advisory on Microfinance and Qualifying Asset

To start with;
There are certain ***benchmarks*** related to microfinance and microfinance beneficiary;

Benchmark 1: Microfinance Beneficiary (Person): For rural demography a person with annual household income of Rs 100,000/- and for urban and semi urban demography a person with annual household income of Rs. 160,000/-.

Benchmark 2: Size of Microfinance Loan: Loan disbursed to any borrower must not increase from 60,000/- for his or her first loan cycle. Loan disbursed to any borrower must not increase from 100,000/- in subsequent cycles for his/her all loans in future. Total indebtedness for any single borrower must not increase from Rs. 100,000/- at any point of time provided that loan taken for education or healthcare should be excluded while arriving the total indebtedness.
(RBI notification for microfinance institution dated 8th April 2015 (notification no. RBI/2014-15/544 DNBR.CC.PD.No.027/03.10.01/2014-15)

Benchmark 3: Qualifying Asset: 90% of the total asset (loan portfolio) shall be disbursed as microfinance loan, it will be called as qualifying asset, meaning thereby it should be provided as microfinance and to the microfinance beneficiary.
(Malegam Committee Report)

Advisory No 1: Sahulat advises its affiliates to adhere to benchmark no 1 as a criterion for microfinance beneficiary.

Advisory No 2: Sahulat advises its affiliates to adhere to benchmark no 2 as a criterion for loan size under microfinance.

Note: Microloan as defined in benchmark 2 will not be considered microfinance activity if it does not follow the criteria of microfinance beneficiary as defined under benchmark 1.

Background for Advisory No 3:

The asset and liability of Sahulat affiliates are different from the Interest based microfinance institutions. Sahulat affiliates have two types of loan asset. Type 1 is the cash loan, which is given against the actual service charge; it does not create any profit or institutional capital for the society. Type 2 is Murabaha and Ijarah, which is capable of creating profit and institutional capital. The institutional capital is backbone for cooperatives for their survival, growth as well as for facing the unforeseen risks. Otherwise the cooperatives will remain fragile if the cooperatives will not focus upon creation of institution capital. Without the institutional capital any risk will impact upon the financial prudence of the cooperative and in the larger picture it may hurt the Interest free microfinance sector with infamy. So it is important to create institutional capital for financial prudence as well as for strengthening the sector.

During the balance sheet analysis of the affiliates for year 2017-18 it was found that size of demand/cash loan portfolio is high approximately among all the affiliates and few have only demand/cash loan in their loan portfolio. Moreover the actual cost/service charge realized among all the affiliates is less than the actual cost incurred and it is due to non-implementation of Scientific Costing Method for the calculation of actual service charge.

Advisory No 3:

i. Sahulat identifies the need of relaxing the benchmark of qualifying asset for its affiliates and proposes the cooperatives to maintain the benchmark of 70% for the qualifying asset considering the sole purpose of creating institutional capital.

ii. The cooperatives should gradually decrease the size of demand loan in the suggested 70% qualifying asset and should increase the size of Murabaha and Ijarah.

iii. Sahulat proposes to maintain the benchmark of 30% of their total asset for the disbursement of large size loan. Beneficiary of this loan may be disbursed to a person beyond the definition of microfinance beneficiary.

iv. Sahulat advises its affiliates to disburse the size of large loans for micro, small and medium enterprises to the extent of 500,000 to 10,00,000/- according to the benchmark of MUDRA.

v. For arriving on the distribution of 70% and 30% on daily basis Sahulat advises for follow two steps;

After maintaining the liquidity demand and expected demand of withdrawal;

- Park the 70% of the remaining separately for microfinance activities.
- Park the 30% of the remaining separately for business loan activities.

Please feel free to connect for your queries.