Credit Guarantee for NBFC-MFIs

Why in News

Recently, the **National Bank for Agriculture and Rural Development (NABARD)** has introduced **Partial Credit Guarantee Programme** for **Non-Banking Financial Company (NBFC) - Micro Finance Institutions (MFIs).**

The programme aims to ensure unhindered flow of credit in rural areas hit by the **Covid-19 pandemic.**

Key Points

- **Programme:**
  - Under the programme, NABARD will provide **partial guarantee on pooled loans** extended to small and mid-sized MFIs.
    - This has come in the backdrop of most **MFIs being excluded from the moratorium benefits from banks,** creating a dip in collections, resulting in widening asset-liability mismatch, credit downgrades and spike in cost of fresh funding.
  - NABARD will facilitate Rs. 2,500 crore funding in the initial phase and will further increase the funding.
  - The program is expected to cover over 1 million households across 28 states and 650 districts.
- **Implementation:**
  - NABARD has signed agreements with **Vivriti Capital and Ujjivan Small Finance Bank** to roll out the initiative.
    - Vivriti Capital is a non-banking financial corporation.

- **Benefits:**
    - The partially guaranteed loan facility will **catalyse much-needed financing to millions of households, agricultural and business markets** to sustain in the post Covid-19 environment.
        - MFIs operate in rural hinterlands and serve farmers, traders, rural businesses and households.
- **Pooled Loan Issuance (PLI):**
    - Under a PLI structure, a bank or an NBFC (Principal Lender), provides loans to identified Microfinance Institutions/other NBFCs/corporates (Borrowers).
    - Each of these loans are made as per terms agreed upon between the Principal Lender and the Borrowers in keeping with the Principal Lenders underwriting and credit evaluation practices.
    - The loans offered are pooled together and credit enhanced by way of a common partial guarantee offered by identified guarantors to the structure.
    - The **PLI structure provides the lending bank adequate comfort through the guarantor's partial credit protection,** it also **reduces cost of capital** as the rating of the loans get increased and helps lenders meet priority sector goals.

Non-Banking Financial Company-Micro Finance Institution

- The NBFC-MFI is a **non-deposit taking financial company.**
- Conditions to qualify as NBFC-MFI:
    - Minimum Net Owned Funds (NOF) of Rs. 5 crore.
    - At least 85% of its Net Assets in the nature of **Qualifying Assets.**
        - The Qualifying Assets are those assets which have a substantial period of time to be ready for its intended use or sale.
- The difference between an NBFC-MFI and other NBFC is that while other NBFCs can operate at a very high level but MFIs cater to only the smaller level of social strata, with need of smaller amounts as loans.

Way Forward

NBFC-MFI plays a crucial role in sustaining consumption demand as well as capital formation in the smaller level of strata, thus it is essential that they continue to get funding without disruption, and the partial credit guarantee programme is expected to systematically enable the same.

Source: TH