

## STANDING COMMITTEE ON SOCIAL JUSTICE AND EMPOWERMENT

### Review Of The Functioning Of The National Minorities Development And Finance Corporation (NMDFC)

#### THIRTY FIFTH REPORT

The Standing Committee on Social Justice and Empowerment selected the subject 'Review of the functioning of the National Minorities Development and Finance Corporation (NMDFC)' for examination from 2019-2022. The Committee was briefed on the subject by representatives of the Ministry of Minority Affairs. On the basis of these meetings, suggestions and recommendations were enumerated in the Report.

#### CHAPTER I- INTRODUCTION

The National Minorities Development & Finance Corporation (NMDFC), a non-profit company incorporated in 1994 to provide concessional loans for self-employment and income-generating activities for the socioeconomic development of the notified minorities' 'backward sections'. Through **State Channelizing Agencies**, the NMDFC implements various credit and promotional schemes for minority communities.

**Credit Line-1 eligibility** is based on an annual household income of 98,000/- in rural regions and 1,20,000/- in urban areas. NMDFC has raised the yearly family income qualifying condition for **Credit Line-2** to 8.00 lakh in order to give larger loan amounts at slightly higher interest rates. NMDFC's authorized share capital was enhanced to 3,000 crore in 2015, with the Government of India investing 1,970 crore as federal equity until December 31, 2021, and states/UTs contributing 385.41 crore. NMDFC has granted loans totaling 6,781.92 crore till 2021-22.. NMDFC also executes a CSR program for the welfare of communities in and

surrounding locations where notified Minority community clusters are situated, such as education, healthcare, and nutrition.

## CHAPTER II- EQUITY STRUCTURE OF NMDFC

The NMDFC's approved share capital is Rs 3,000 crore, with the Central Government holding 73%, State Governments/UTs holding 26%, and individuals/institutions engaged in minority development holding 1%. The paid-up capital as of March 31, 2022 was Rs. 2,355.92 crore.

**In 2015, the share capital was increased from 1,500 crore to 3,000 crore, and the Central Government's stake was reduced from 65% to 73% in order to improve money available and coverage of targeted minorities.** In the beginning, in 2016-17, the NMDFC was able to release additional funding on a year-to-year basis. However, the Central Government and State Governments/UTs' equity share has not reached the optimal level since 2015. According to the Ministry, NMDFC frequently approaches the involved State Governments/UT Administrations to contribute their allotted part of NMDFC's equity. The NMDFC scheme payout has not been connected to pending equity payments from a State/UT in order to prevent depriving targeted populations residing in such State/UT of the benefits of NMDFC schemes. Beneficiary coverage is entirely dependent on financial resources, and NMDFC has already proposed that the Ministry increase NMDFC's Authorized Share Capital from 3,000 crore to 5,000 crore.

Due to a directive issued by the Government of India in 2015, NMDFC limited its financing in states where SCAs were chronic defaulters. **To expand coverage, NMDFC inked an MoU with Canara Bank with the goal of reaching targeted clients in areas where SCAs were not operational.** During the fiscal year 2021-22, NMDFC channeled a total of 15 crore through Canara Bank. Canara Bank fully used the funds by disbursing them in states/UTs where NMDFC SCAs are not operational.

### CHAPTER III- CREDIT SCHEMES OF NMDFC

**Term Loan Scheme** makes economically feasible loans to individual recipients through State Channelising Agencies (SCAs). Projects costing up to 20.00 Lakhs are financed through Credit Line-1, with NMDFC contributing 90% of the project cost and the SCA and recipient covering the remaining cost at 6% per annum. For Credit Line-2, up to INR 30 Lakh is financed at 8% per annum for male beneficiaries and 6% per annum for female beneficiaries.

**The Educational Loan Scheme** assists eligible members of the minority population in obtaining job-related education. NMDFC offers educational loans of up to 20.00 lakhs for technical and professional degrees in India and up to 30.00 lakhs for studies overseas, with payments beginning six months after completion of the course or employment, whichever comes first. The percentage of female beneficiaries sponsored by the Education Loan program is 27.24%, as well as the initiatives made by NMDFC to encourage female students to take advantage of the plan by giving lower interest rates of 5% compared to 8% for male students. The NMDFC and State Channelising Agencies (SCAs) should make every effort to assist applicants so that their applications are not denied due to a lack of documentation. Furthermore, the Committee recommends that **the amount of education loans be reviewed on a regular basis in light of rising education costs in order to avoid financial crises and dropouts.**

**Virasat Scheme** aims to meet credit requirements of the Artisans, both in terms of Working capital & Fixed capital requirement of equipment/tools/machineries. Maximum loans of upto ₹10.00 lakh can be availed under this scheme. Under Credit Line-1, the loan is available at simple interest of 5% per annum for Male Artisans and with 1% concession for Female Artisans at simple interest of 4% per annum. **More Public Sector Banks and Regional Rural Banks should join the Scheme to help craftsmen and traditional artisans across the country. The Ministry should also take effective steps to publicize the Scheme among craftsmen, particularly in rural and semi-urban regions,** in order to save several regional traditional crafts on the edge of extinction. The Committee further proposes that the Ministry collect feedback/suggestions from all stakeholders in order to implement improvements that may be necessary to further promote the Scheme among artisans from minority communities.

**Micro-Financing Scheme**, under which modest loans of up to 1.00 lakh per member of SHG are made available to members of Self Help Groups (SHGs) by NGOs with a proven track record and their network of SHGs. Credit is granted at a 1% annual interest rate to NGOs/SCAs, who then lend to SHGs at a maximum annual interest rate of 7% under Credit Line-1. Credit line-2 provides 1.50 lakh per SHG member at an interest rate of no more than 10% per annum for male beneficiaries and 8% per annum for female beneficiaries. The maximum payback duration is 36 months. According to the article, the system is limited to states that make monthly contributions to NMDFC. Canara Bank recently awarded Rs. 3.45 crore to 156 women from SHGs via the Micro Finance Scheme. There are no beneficiaries under all NMDFC Credit Schemes in Maharashtra, Bihar, Assam, Odisha, and Telangana, states with significant minority populations. **The Ministry of Minority Affairs re-examine their implementation plan, identify causes that are impeding the spread of these programs in all states/UTs, and take the necessary steps to correct the defects.**

#### **CHAPTER IV- PROMOTIONAL SCHEMES OF NMDFC**

The **Mahila Samridhi Yojana** is a one-of-a-kind initiative that combines microcredit with skill training for women members of Self Help Groups in women-friendly trades. Under the Mahila Samridhi Yojana, training is given to a group of around 20 women in any suitable women friendly craft activity. The women are formed into a Self Help Group during the training itself. Later, micro-credit is provided to the members of the SHG so formed. The maximum duration of the training is six months with maximum training expenses of ₹1,500 p.m. per trainee.

The **Marketing Assistance Scheme**, is intended for individual craftspeople, NMDFC recipients, and SHGs, and is implemented through State Channelising Agencies (SCAs). The initiative aids SCAs in staging State/District level exhibits in strategic places to enhance the promotion and sale of products at reasonable costs. In these exhibitions, handloom/handicraft products of crafts-persons belonging to Minority Communities are exhibited and sold. During the exhibition, stalls are provided free of cost and TA/DA is also provided to crafts persons as per scheme.

However, only 1214 women have benefited from the Mahila Samridhi Yojana in the last five years, and only 17 exhibitions have been organized in the six-year period from 2016-17 to 2020-21 under the Marketing Assistance Scheme. However, there has been a delayed progress in the schemes, and NMDFC intends to rectify the inadequacies that are causing the schemes to perform poorly. **The Committee advises the Ministry to make concerted and ongoing efforts to ensure the success of these programmes. The Ministry and NMDFC should act immediately to guarantee that the noble goals of providing microcredit help to minority women following sufficient training and marketing aid to members of Minority Communities are not undermined.**

## **CHAPTER V STATE CHANNELISING AGENCIES (SCAs)**

The State Channelising Agencies (SCAs) are the main channels for implementing the schemes of NMDFC. At present, NMDFC has 45 SCAs across 27 states and eight UTs, the majority of them are registered businesses under the Companies Act. **SCAs are responsible for implementing NMDFC financing programs such as loan sanctioning and disbursement, record-keeping, loan collection, and payback to NMDFC.** SCAs also conduct promotional initiatives such as **MahilaSamridhi, Marketing Assistance Scheme, and Kaushal se Kushalta Scheme.** According to Ministry data, 39 SCAs are now functioning, while six are not, due to factors such as a pending General Loan Agreement or the provision of a Government Guarantee by the appropriate State Governments/UT Administration. The actions taken to make all of the SCAs operational include NMDFC's regular follow-ups, letters sent at the level of Secretary, Ministry of Minority Affairs, and the appointment of an agency to administer NMDFC initiatives in Ladakh. However, the Telangana government has demonstrated its inability to nominate any NMDFC SCA and implement its schemes in the state. The NMDFC CMD informed the Committee that the SCAs in 17 states were picked because they were not working properly and were not making loans to customers.

**The Ministry of Social Justice and Empowerment has made many initiatives to minimize loan application processing time, such as automating the loan sanction and distribution**

**procedure and transferring benefits directly to the beneficiary's account.** The main reason for loan processing and payout delays is a lack of field level infrastructure and people with the State Channelising Agencies (SCAs). SCAs have received funding from the Ministry to improve their credit delivery and recovery infrastructure, streamline loan documentation, and computerized loan records. To streamline the loan procedure, self-declaration, self-certification, and self-attestation of papers have been implemented. SCAs have been instructed to hold **awareness camps to promote information about NMDFC programs in low-income and minority-populated regions.** SCAs have been ordered to distribute all loans electronically via Direct Benefit Transfer (DBT). The Ministry is in the midst of acquiring a **Loan Origination solution, which will allow recipients to request for loans online and follow their progress.** NMDFC is also tying its credit programmes to the newly created Jansamarth portal to make it easier for all beneficiaries and stakeholders to access. A total of 223.85 crore was owed as of March 31, 2022, which was secured by the State Government. A guarantee and provision for bad and doubtful debts of 18.16 crore have been provided (as at 31/03/2022). NMDFC often approaches defaulting SCAs to clear their overdues through its One Time Settlement (OTS) Scheme or re-scheduling of overdues, with the support of the State Government/UT Administration. **The SCAs have separate recovery cells that retain all recovery data for monitoring beneficiary recovery, and penalty provisions are in place for loan non-repayment.**

Several SCAs (Special Purpose Vehicles for Implementation of NMDFC Schemes) are in default on their NMDFC dues. The causes for this include recipients' prolonged poor recuperation and a lack of financial support from the state government or UT administration. To solve the issue, the NMDFC provides a **one-time settlement method** in which the whole compound interest is eliminated if the outstanding principal and interest sum is paid in one payment. SCAs with overdue dues are not considered for future distribution until their outstanding balances are paid. The NMDFC also follows up with defaulting SCAs on a regular basis and notifies the state government of the default. On request, late tasks are rescheduled to ensure the continuance of NMDFC scheme execution. NMDFC offers money under the Grant-In-Aid scheme for the contract deployment of recovery field employees for frequent follow-up with beneficiaries. According to the study, most SCAs have insufficient employees, and NMDFC has raised the

issue with the different SCAs in several states in order to deploy appropriate staff. The NMDFC has established a number of initiatives to help SCA employees enhance their capabilities.

**SCAs receive grant-in-aid (GIA) ranging from 5.00 lakh to 25.00 lakh under the plan to enhance their infrastructure, including recovery.** The GIA plan gives supplementary funding to SCAs, however the SCAs are principally supported by their respective state governments. Despite the availability of funds, they have not been completely utilized, and recommends the Ministry and NMDFC to implement necessary supervision to ensure that monies designated for GIA are properly utilized for SCA infrastructure upgrades. The Committee challenges the rise in budgetary allocation from 2.00 crore to 5.00 crore, especially when 2.00 crore of available money could not be used in prior years.

## **CHAPTER VI- GRANT-IN-AID TO STATE CHANNELISING AGENCIES**

In 2007-08, the Ministry of Minority Affairs introduced the Grant-in-Aid (GIA) initiative to develop the infrastructure of State Channelising Agencies (SCAs) that implement State Government and National Minorities Development and Finance Corporation (NMDFC) projects.

The Ministry gives 100% support to SCAs through NMDFC under the GIA plan, ranging from 5.00 lakh to 25.00 lakh, for strengthening their operations, such as awareness camps, improved delivery methods, recoveries, TA/DA of personnel, and more.

**The Ministry provides additional assistance through the GIA scheme to strengthen SCAs' credit delivery and recovery mechanisms. SCAs with insufficient infrastructure have been regularly asked to follow up with their State Government/UT Administration in order to develop basic infrastructure, provide skilled and experienced people, and get financial help.** Concerning the sufficiency of the 2 crore Grant-in-Aid for all 39 functional SCAs, the Ministry stated that the allocation under the GIA scheme has been increased to 5.00 crore per year based on the increase in assistance requested by SCAs.

SCAs can now get cash from GIA programmes ranging from 5.00 lakh to 25.00 lakh.

When questioned about NMDFC's help to SCAs in submitting acceptable proposals under the GIA system, the Ministry said that NMDFC gives advise to SCAs in the event that they encounter any difficulties in presenting proposals under the GIA scheme.

According to the Ministry, by increasing budget allocations and widening the scope of allowed activities under the plan, SCAs would be able to use money more efficiently and enhance their operations.

However, the Report notes that the annual Grant-in-Aid of 2.00 crore was reduced at the RE stage to 0.965 crore from 2.00 crore in 2020-21. Because various NMDFC schemes are implemented through SCAs, the Committee believes that infrastructure, adequate manpower, computerization, and a strong mechanism for capacity building of SCAs should be the highest priority of NMDFC/Ministry. The Committee observes that one of the causes for the poor execution of NMDFC programs is a lack of SCA infrastructure. It expresses worry that funds were not adequately utilized despite their availability. Only 472.50 lakh of the 633.50 lakh granted to SCAs in 15 states over the last five years could be used.

**The Ministry/NMDFC should establish supervision to guarantee that Grant-in-Aid funds are fully utilized and also necessary action to ensure that the money provided for SCA infrastructure upgrades are fully used.**

## **CHAPTER VII- FINANCIAL ASSISTANCE TO TARGET GROUPS**

The National Minority Development Finance and Development Corporation (NMDFC) based on annual family income provides financial support to two target categories. Credit Line-1 for rural regions and Credit Line-2 for urban areas are the two target group groupings depending upon yearly income. **People with annual family incomes of up to 98,000 in rural areas and 1.20 lakh in urban areas are eligible for Credit Line-1 benefits. Credit Line-2 benefits are offered to persons with a family income of up to Rs. 8.00 lakh per year.** The yearly family income restriction under Credit Lines 1 and 2 was changed on a regular basis based on the Planning Commission's poverty estimates. **The NMDFC launched a new credit line based on the income pattern of OBCs, and the maximum under Credit Line 2 was increased to Rs.**



**8.00 lakh per annum.** According to the Ministry, the loan approval procedure is carried out at the district level, and the selection criteria are based on the beneficiary's yearly income and minority status. According to the most recent survey completed in 2018-19, approximately 82% of recipients sponsored under NMDFC programmes have earned more than double the poverty level.

Under the Kerala Model, a corpus has been created to provide insurance to the beneficiaries financed under NMDFC Schemes. In line with the Kerala Model, **SCAs have been advised to get insurance for the beneficiary and assets financed, to protect the beneficiary and his family from any untoward incident.** If the Kerala model is replicated it would save the SCAs who undertake the financing from a large number of beneficiaries from any default since the claim can be realised by the SCAs .

## **CHAPTER VIII- AWARENESS GENERATION**

The Ministry has instructed **State Channelising Agencies to host awareness camps in low-income and minority-populated regions. Prospective beneficiaries are given application forms and brochures during these camps,** and they are assisted in filling out the applications. The SCAs have also been asked to publicize NMDFC initiatives utilizing district administration machinery on a regular basis. At such camps, **success stories of beneficiaries are published and distributed to encourage participants to come forward and apply for assistance under NMDFC schemes for their socioeconomic development.** However, only 1077 camps could be organized between 2015-16 and 2021-22, despite financial assistance of \$50,000 per camp. As a result, **the NMDFC/Ministry must identify minority concentration districts in the country where NMDFC projects have not been successful, and that additional awareness camps be established, particularly in those districts/areas, to attract the targeted population.** In the impact study conducted by Center for Market Research and Social Development on the beneficiaries of NMDFC Schemes, it was recommended that the **success stories of term loan and Micro Finance Scheme beneficiaries be widely publicized in order to broaden the scope**

of the schemes and raise awareness. The NMDFC has collated and publicized success stories of recipients, viz. Sapno Ko Pankh- Kamyabian.

## CHAPTER IX- MONITORING

The National Minority Development and Finance Corporation (NMDFC) is in charge of monitoring and assessing how its different initiatives are being implemented. According to the Report, NMDFC monitors and evaluates scheme implementation through a variety of methods, including organizing periodic meetings with state channelizing agencies (SCA) to review scheme implementation, conducting beneficiary verification and impact studies through independent expert agencies, and deputing its own officers. Beneficiary-related information is posted on the NMDFC website, and SCAs have been asked to post their beneficiary data on their own websites in the public domain.

**The monitoring mechanisms available for ensuring timely disbursement under various NMDFC schemes, are charging a higher rate of interest if the fund remains unutilized after 6 months and sending a red card notice to the SCA with a copy to the state government for immediate surrender of unutilized funds.** NMDFC strictly monitors money disbursement, with SCAs obtaining funding from NMDFC depending on their preparation in terms of beneficiary identification and sanctioned loan cases. Funds must be used within three months after being drawn, and interest rates are determined based on actual consumption. If funds are not spent within six months, interest rates rise to 8.5% p.a. SCAs have been encouraged to establish a separate recovery cell within their office to monitor loan repayments from recipients.

**Through periodic impact studies, the NMDFC monitors beneficiary feedback on actual recoveries. NMDFC has also built an online portal for 25 state channeling agencies that incorporates information such as live updates, beneficiary data, and produced reports. SCAs are also urged to input beneficiary data to the site.**