

## NABARD: NABARD LINES UP TERM LOAN FACILITY FOR MFIS, BUT SMALLER ONES MAY NOT GET IT

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

The National Bank for Agriculture & Rural Development ( [Nabard](#)) will provide an 18-month term loan to [microfinance](#) firms of its own, besides extending the one-year special refinance scheme as directed by [Reserve Bank of India](#).

This is an improvement over [Small Industries Development Bank of India](#)'s one-year term loans, but the smaller MFIs, which need financial assistance the most, may still be in the lurch.

The microfinance sector may require Rs 15,000-20,000 crore of funding in May and June, according to Sa-dhan, the largest microfinance lobby group with 212 members. They are facing cash flow mismatches as they have offered moratorium on loan repayment to their borrowers even as most of their lenders are not extending back-to-back support.

"We can meet part of the sectoral demand through term loans," Nabard chairman Harsh Kumar Bhanwala told ET. "We will raise resources for it through internal accruals as well as market borrowing."

[RBI](#) has given Rs 25,000 crore to the development financial institution for refinancing regional rural [banks](#) (RRBs), cooperative banks and MFIs for a period of one year or less. Just a part of it may be earmarked for MFIs, given Nabard's exclusive role in supporting RRBs and cooperative banks.

The banking regulator has offered another Rs 25000 crore to Sidbi and National Housing Bank to improve liquidity for their refinancing/lending activities.

"Nabard's refinance is now available only to NBFC-MFIs with asset size of Rs 500 crore and above, and as of now only 23 NBFC-MFIs will be eligible for refinance," Sa-Dhan executive director P Satish said. "We have requested Nabard to relax these norms so that more MFIs can benefit from refinance and term loan facility."

Bhanwala said that [Nabsamruddhi Finance](#) and Nabfins—subsidiaries of the apex rural bank—support smaller firms. "We can channel RBI's assistance through intermediaries as well," he said.

Nabard said interest rate on the term loans will be based on its cost of fund. The rate on the refinance facility will be 300 basis points over repo rate with applicable risk premium. RBI's repo rate now stands at 4.4%. One basis point is equal to one-hundredth of a percentage point.

The [subsidiaries](#) lend to smaller MFIs at higher interest rates.

RBI's liquidity window for smaller and mid-sized firms may not also address the requirement on the ground since firms with credit ratings below investment grade are not allowed to avail it while almost one-fourth of the rated entities fall below the grade. Banks have shown apathy to support smaller firms with them using just half of the liquidity on offer by RBI for this purpose.

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