Emerging Risks in the NABFINS Microfinance Model

A comprehensive study of troubled districts and B&DCs and recommending mitigation measures to minimise such risks in the future

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Acknowledgements:

I would like to sincerely thank the following people for taking time off their busy schedules to guide me during my internship:

Dr. B.S Suran, Mr. Ashutosh Kumar, Mr. G.V. Rajan, Mr. Vibhu, Mr. Ranjan Prasad, Mr. Anand, Ms. Diana, Mr. Ram Rao, Mr. Kumar (Mysore) and all other staff members of NABFINS at HO and DO for supporting me during my internship.

I deeply appreciate and believe in the work done by NABFINS and I thank NABFINS for giving me the opportunity to study it. It has been a life changing experience in every sense for me. I hope the study findings will be useful in getting a fresh insight into the emerging risks in the microfinance model of NABFINS.

Abstract:

The purpose of my internship and this report is to determine whether there are Emerging Risks in NABFINS's Microfinance Model.

The research question is:

Are there Emerging Risks in the NABFINS Microfinance Model? If they are present, what are they and how can they be mitigated (An analysis of troubled districts and Business and Development Correspondents (B&DC)?

In recent years, NABFINS has been witnessing a rise of NPA/ODs among SHGs which threatens the viability of NABFINS's business model. The cause of this trend has been attributed to various stakeholders: SHGs, B&DCs, NABFINS District Office (DO) Staff, NABFINS Head Office Staff (HO) and the external environment which is beyond NABFINS's influence. This report will briefly introduce NABFINS and its model, then it will discuss the risks NABFINS is facing and how can they be mitigated. This question was researched using primary data such as interviews with NABFINS staff, B&DC staff and SHG members and data collected through surveys. Secondary data obtained from NABFINS, B&DC and SHG members are discussed as well.

The information gathered was then analysed in-depth using tools like SWOT, Porter's Five Force Analysis and Ishiwaka's Fishbone model. The analysis takes the data gathered through interviews with all stakeholders as the main basis for the argument due to a lack of accessible quantitative data related to loans.

The analysis concludes that NABFINS does face emerging threats in its model, however it's still in its infancy thus can be reverted without putting too much strain on NABFINS's financial resources. The analysis also concludes that the recent steps taken by Dr. Suran and his team are in the right direction, however the report puts forth the question, after the firefighting is over, can NABFINS implement these mitigating measures in its permanent business strategy effectively?

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Introduction

The Indian economy in recent years has seen unprecedented growth. The 21st Century has been said to be defined by India and China's growth. This optimistic outlook of our country is resonated with the ground situation in India. Hundreds of millions of Indians have moved out of absolute poverty (as defined by the Tendulkar Methodology) since Independence and in almost every development indicator, India is progressing. However, millions of Indians today haven't reaped any benefit since Independence. For them even today, hunger, lack of healthcare, clean water and shelter are realities. For decades, the Government and NGOs have supported them with aid and charity, which was proven to be effective to a certain extent. By using such methods it was difficult to bring permanent benefits for these people. A more permanent solution was needed where these people could escape the 'poverty trap' and lift *themselves* out of poverty.

Instead of charity and aid, we needed to provide these people a means of earning a livelihood thus allowing them to become independent. Microfinance is an idea that low-income individuals can lift themselves out of poverty if given access to financial services. This idea was proven with the great success of Grameen Bank in Bangladesh in the late 90s. Encouraged by this, the idea was implemented in India with success. However, in recent years many Microfinance institutions (MFI) have lost their path, thus resulting in many scandals. In light of this, NABFINS was established by NABARD in 2008. NABARD Financial Services Limited (NABFINS)is a subsidiary of the National Bank for Agriculture and Rural Development (NABARD). It's a non-deposit taking NBFC registered with RBI. It is an idea of an ethical and exemplary MFI for others to follow. The aim of the company is to support sustainable livelihoods of the rural and urban poor in farm and non-farm sectors. This is done by providing credit and other facilities for initiation, promotion, expansion, commercialisation and modernisation of agriculture and other activities such as sewing, husbandry, taxi services, etc. NABFINS operates with a mission of 'Business with Growth' and partners with B&DCs to achieve this goal.

NABFINS Microfinance Model

NABFINS is a unique MFI because of its B&DC model. In this model, NABFINS partners with B&DCs for lending activities. B&DCs are a third party agent, most often a NGO, which is working in a certain region which NABFINS has an interest in lending credit. The B&DC, optimally, has been working in the community for many years and is supporting them through various developmental projects such as sanitation or skill training. The idea is, because of this history and existing structure the B&DC will know the community well and when NABFINS's partners with the B&DC the risk of lending will be reduced. The business model is represented in the diagram below:

Aim

The aim of this study is to identify emerging risks in NABFINS's microfinance model so that they can be mitigated. By identifying these risks, the aim is also to understand how they developed and how they can prevented or cured in the future.

Methodology

The investigation for this report was done by:

- Interviewing staff members from NABFINS HO, reading company documents and collecting all secondary data about loans, NPAs and ODs
- Visiting the B&DCs, DHGs and NABFINS DO at troubled districts (Tumkur and Madurai) to gather primary data about emerging risks

Limitations

Although, I was given full support and access by all NABFINS staff, there were some limitations and challenges:

- Difficulty to analyse data related to loans and all its variables: As most data was collected manually and there was no central information system, it was difficult to discover trends and patterns in risk. This was a severe limitation because this meant I was limited to qualitative data
- Language barrier: I was dependent on NABFINS staff or B&DC staff for translation when I was communicating with SHGs or members of B&DC. This is potentially an importation limitation because it's possible the staff didn't translate what was being said in an effort to look good

Analysis

The analysis for emerging risks in the NABFINS business model will be done by critically examining each process of the business model to look for strengths and weaknesses. The analysis will be aided by data I have collected on the field. First, we will analyse NABFINS using Porter's Five Forces to identify NABFINS's current market position and competition:

Threat of New Competition:

The barrier to entry in the microfinance entry is medium. As India is the largest emerging market for microfinance, there is great interest for many to join this industry. However, the threat of new competition isn't significant to NABFINS because of its reputation amongst the people who view NABFINS with great admiration. Additionally, it will take a lot of time for a newcomer to match the size of NABFINS

Threat of Substitutes:

Currently, there is no other MFI that offers similar service like NABFINS: flexible loans, door-step delivery, quick approval of loans and assistance from B&DC and NABFINS. NABFINS is clearly unique and this is also its best selling point

Bargaining Power of Customers:

Customers are the members of SHGs and they do not hold much bargaining power. These people don't have access to traditional sources of finance and NABFINS is the best source for a fair financial loan. Most customers have remarked that they are very satisfied with the loan repayment schedules. As NABFINS's aim is not for profit maximisation institution, it is clear that NABFINS is working for the best interests of its customers

Bargaining Power of Suppliers:

The suppliers in this situation is NABARD and B&DCs. NABFINS receives all of its financing from NABARD, its parent institution. NABARD has complete power of NABFINS as it can decide at what rate it will finance NABFINS, however as both of the organisations exist for a similar mission, it is unlikely that any problem might arise. Additionally, NABFINS has planned for a future that it can sustain and organically grow using the capital it already has. However, B&DCs hold a strong bargaining power with NABFINS, as NABFINS is wholly dependent on the B&DC for finding and nurturing SHGs and for loan recovery. The B&DC can, at any point, leave NABFINS and join other MFIs. However, most B&DCs are satisfied working with NABFINS and appreciate the work NABFINS does. I

Competitive Rivalry:

Competitive rivalry is intense in the microfinance market with several important players (e.g. Ujjivan, Janalakshmi, SKDRDP). Most competitors have extensive product portfolio, powerful competitive strategy and large advertising budgets. What sets NABFINS apart are it's unique selling points: low interest rates, flexible loans, ease of getting loans and door-step delivery

This analysis showed NABFINS's current market position, which can be concluded is strong and unlikely to be changed in the near future. From Porter's Five Forces analysis, NABFINS's main concerns are competitive rivalry because there is potential for market and profit loss.

NABFINS's Business Model Analysis

In this section, each part of the NABFINS business process will be discussed and analysed to determine if there are any emerging risks. Data will be used to support the claims made. As this report is meant for NABFINS staff, the process will not be discussed in detail as the staff will already be knowing this. In the interest of keeping the report concise, the process will be discussed briefly and more time will be spent on analysis.

Selection of Markets:

The very first process of NABFINS in its business model is the selection of which market (district, city, village, region) to enter to provide its services. As NABFINS invests in under banked areas, it leads to higher operating costs and more importantly higher risk because very little financial information is known about the local economy and its people in these regions. Additionally, the remoteness of these places can make it harder to monitor B&DCs and SHGs. However this is a minute risk because these markets represent opportunity and potential for helping people.

Selection and Empanelment of B&DCs

The selection and empanelment of B&DC is the most important process in the business model. If this is done correctly, at least 50% of the problems can be prevented and even more can be mitigated. The scope of B&DC activities include - identification of borrowers, collection and verification of loan applications, training about money management, creating, nurturing and monitoring SHG groups and loan recovery. Basically, they do almost all of the groundwork for NABFINS and crucially, they handle the responsibility loan recovery which is equally important because without loan recovery NABFINS wouldn't function. If a strong B&DC is empanelled, a constellation of risks can be avoided. A strong B&DC will have an established positive relationship with the community, they will be working on some project for the benefit of the community, they will be committed to sponsor suitable SHGs and to monitor them through the loan recovery process. However, in recent years, several B&DCs have fallen short of this standard (i.e. ABHIVRUDDI, FREDCOT, ARD, KIDS, etc). We're seeing a rise in B&DCs who collect commission, mismanage the loan instalments, sponsor weak SHGs just for commission and are lax on monitoring. This has led to at least 50% of the problems NABFINS is facing today.

The Selection and Empanelment Process of B&DCs followed by NABFINS is strong and thorough. Yet, we are witnessing this trend. There are several reasons for this:

- In some places, like ARD in Madurai, although the NABFINS staff knew that the B&DC isn't very strong, they still empanelled them because of lack of substitutes. From my interviews with NABFINS staff, there is an agreement that in some under-served places, weak B&DCs had to be partnered with so that NABFINS could enter that market. This is a dangerous, but manageable risk if the NABFINS staff has a strong monitoring team. However, the NABFINS monitoring team was almost non-existent two years ago when these problems started seeding. And now, these B&DCs are facing large NPAs and ODs, yet NABFINS can't cut relationships with them because NABFINS is dependent on the B&DC for loan recovery. This is where the business model is at its weakest. The most crucial part of any company is its capital and how it manages them. In this business model, NABFINS is almost wholly dependent on a third party agent for collection of its money. This is a precarious position to be in which can only be mitigated by empanelling strong B&DCs and monitoring them consistently. Additionally, an exit strategy needs to be devised by NABFINS. The strategy needs to detail how to end relationships with underperforming B&DCs and be able to recover the existing loans. Additionally, in some instances, the B&DCs can disperse the loans to SHGs and NABFINS can do the loan recovery as this will reduce risk. Lastly, intervention strategy needs to be devised, where B&DCs which have a pattern of NPAs and ODs are guided so this can be reduced. This strategy will be reliant on strong Management Information System (MIS) which can use current data to show a future threat of a particular B&DC. With this kind of forecasting tools available, effective interventions can take place. And, a system to periodically grade B&DCs needs to be implemented so that any changes in the B&DC can be captured

- Several B&DCs (i.e. KIDS, IYD) started strong (i.e. good relationships with community and focusing on several projects), but now they only do loan disbursement and recovery work for NABFINS to earn commission. This is worrying because in NABFINS's business model, we partner with B&DCs because they offer other services like skills training or sustainable farming. If a B&DC becomes completely reliant on NABFINS, there is a risk that they will sponsor SHGs just for commission. One way to mitigate this is to, reevaluate B&DCs on a regular basis and to help B&DCs get projects so that they can continue serving the community.

- Signs of fatigue are appearing as some B&DCs with 3-4 years partnership are getting NPA/ODs. This is a worrying trend because what if this extends to other B&DCs as well. From analysis it seems this is happening because, overtime the B&DC staff becomes lax with nurturing and monitoring SHGs. They also start becoming more dependent on NABFINS for income, so this leads to more disbursement work (the easy money) and less recovery work (the hard money). To mitigate this, NABFINS can adopt several measures such as constantly reevaluating their relationships with B&DCs and using the exit strategy if things are getting worse, having good communications with B&DCs so that they stay motivated with their work and creating incentives which can be financial and non-financial to meet targets

- NABFINS has no control if a B&DC withdraws. At any point, the B&DC can decide to stop doing recovery and walk out of this business partnership. This is an extremely sensitive situation with major risks as we have seen in Madurai, where B&DCs just focused on disbursing work and didn't put much effort in recovery causing higher costs to NABFINS and accrual of NPA/ODs. To mitigate this, either the contract has to make it illegal for the B&DC to walk away before completing disbursement and recovery work or NABFINS needs to heavily invest in creating strong relationships with B&DC staff, something which isn't happening. Even today, the NABFINS HO staff don't have much communication with B&DCs and in some places even NABFINS DO staff don't have much communication with B&DCs. This needs to change, because as B&DCs represent the largest expense and income for NABFINS, so appropriately, NABFINS needs to spend large amount of time with the B&DCs. This can be weekly meetings, day trips, workshops, etc.

Selection and Empanelment of the *right* B&DC is crucial for NABFINS's success and a large amount of it's time needs to be focused on monitoring these B&DCs after empanelment.

Sponsoring and Grading of SHGs and Disbursement of Loans

Groups nurtured and monitored by the B&DC for at least six months are included in the loyalty list of the B&DC. The loyalty list is a list of SHG's that the B&DC is promoting for credit linkage by NABFINS. The loyalty list is submitted so that the B&DC doesn't add new SHGs that NABFINS doesn't know about. Both the FSO and the concerned B&DC staff meet all the group members (including the non-borrowing members) at their usual meeting place. At the first meeting the FSO read out to the group information from the survey sheet (which contains information about the customer, the KYC and about the SHG, this information has already been captured by the B&DC before the 1st meeting). After verifying the information, grading the SHG based on the grading the sheet and agreeing on the terms for the loan, the District Manager recommends the group for a loan. At meeting 2, the loan documents are verified and the terms and conditions of the loan are read out to the group. After everyone has signed and agreed, the loan is then disbursed in the following days either through e-transfer or manually for which all members must be present.

There are many risks in this process that in the future can lead to NPA/OD. They are analysed here in chronology:

- Many SHGs that are sponsored by the B&DCs have turned out to be fake SHGs (fake documents and not committed to the SHG concept - concentrated in Madurai where an agent links the B&DCs and SHGs). It is very difficult to identify these SHGs because everything about them looks authentic. In these cases, the B&DC teams with a group leader, and they hastily create a group, promising them cheap credit while taking commission. After the loan is disbursed most of these groups disperse and loan recovery becomes nearly impossible. Some ways to counter this is to have stringent grading practices which are hard to replicate such as a genuine interest in SHGs can't be faked or have sting operations at the B&DCs or third party agents.
- In some cases, the B&DC insisted the SHGs take loans when the SHGs didn't have a genuine need. This was so that the B&DC can earn commission.
- In many cases, the KYC documents weren't filled properly, information such as phone numbers, signatures, photos, addresses and financial information about the members were lacking or incorrect and yet they were given loans. This shows severe negligence of work. Nor did the B&DC staff nor the NABFINS DO staff took any action about it (i.e. Madurai).
- In some cases, the B&DC and NABFINS staff had to travel up to 200+ km a day to meet SHGs. This poses a big risk as this distances makes it hard for monitoring and recovery. A guideline should be set for maximum distance.

It is important to be very stringent on which SHGs are credit linked with NABFINS, therefore the grading needs to be upheld to the highest standards. Some ways they can be improved are:

- A more thorough grading system and loan amount formula. Currently, the grading of groups is very subjective. The District Manager has full discretion on the grade he gives to the groups. It's important to move towards a more objective grading system which can be backed with data. For example, NABFINS can use various variables such as average income, age, family size, education, etc, type of occupation, health care issues, distance of SHG members from each other and many others. These variables can be assigned a weightage based on probability of NPA/OD (i.e. if the SHG group's average age is 45 and some members have family in hospital, the group will be high risk even if they get a high grading score on the current NABFINS system). Once MIS is in place and all loan information is being centrally gathered and analysed, over time, patterns in all

these variables will emerge which aid NABFINS in creating a more detailed grading and loan amount calculator system.
- NABFINS HO staff should conduct random SHG grading to assess the results given by the NABFINS DO
- Each FSO and DM should have their own data profile which will have information about which groups they graded, how much they graded and what was the history of the group (i.e. loan repayment problems, etc). Overtime, as patterns emerge, it will be easier to notice things before they go wrong.
- Over time, the NABFINS DO staff can become lax and become too comfortable in their districts, thus affecting their grading and even monitoring. It is important to move the senior staff around to ensure 'freshness' in every region.
- Lastly, NABFINS can only grow when it links with new SHGs, therefore it is important to encourage B&DCs to create new SHG groups, however it's also important to make sure they do it the right way. If NABFINS repeatedly turns down SHG groups, the B&DC will stop trying and won't cooperate with loan recovery. So it's important to strike a balance.

Post-Disbursement Monitoring

This is an extremely important process in the model, as this represents the crucial time where NABFINS and B&DC makes sure the money is being used appropriately. This is the heart of microfinance - after the credit is given, it is crucial to give the correct support to the SHG so that the funds are used appropriately and for their growth. This is also the weakest part of NABFINS's operations. Consistently, monitoring has been lax throughout the board. At NABFINS, the staff are required to undertake post-disbursement and follow-up visits to groups every quarter and the B&DC staff needs to meet the SHG group at least once a month for loan recovery. However, none of this is happening due to severe staff shortage, too many SHGs and low motivation to do the work. It had gotten so bad that some B&DC staff haven't visited SHG groups for months to collection instalments (Madurai). And due to ineffective data management and lax authority, it took a while for NABFINS DO to recognise this and to take strong action. The most effective way of monitoring will be by placing a strong MIS where all the data is collected and processed.

Recovery of Loan

Recovery of loans by B&DCs commences one month after the date of disbursement. The SHG can decide a date and time which suits them. The B&DC staff visits the SHG and collects the instalment and issues the SHG a POS receipt for evidence. The B&DC at the end of the day or early next day must deposit the instalment amount in the NABFINS account. This needs to happen consistently every month. And at the end of the loan recovery, the SHG can start planning for the next loan from NABFINS or remain a SHG with internal funding with B&DC support.

The recovery of loan represents the bread and butter of NABFINS, as this is what fuels the company. If there isn't enough capital, NABFINS would face significant crisis. However, not enough importance is being placed on this aspect either. Due to lax monitoring, recovery is becoming increasingly difficult. In recent years significant issues have arisen about recovery:

- Due to lax monitoring, B&DC staff members aren't visiting SHGs on time, thus weakening the discipline in the SHG to pay loan instalments
- Due to lax monitoring, many SHGs disintegrate or face others issues (which are discussed later on) thus becoming unable to pay their loan
- A phenomenon has been noticed that, social collateral - the crux behind the SHG concept - is causing some NPA/OD (i.e.in some SHG groups, when one member doesn't pay, instead of other members paying for her, we are noticing that if one member doesn't pay, other members will refuse to pay as well). Another phenomenon that been noticed is the Contagion Effect - that if there are many SHGs in vicinity and if one SHG starts to default, it's very likely that other SGHs will start defaulting as well.
- Due to lax monitoring, some B&DCs use the money for their own purposes instead of crediting it to NABFINS account
- As NABFINS can't take legal action against B&DCs or SHGs, it's makes the barrier to do any undesirable activity low.
- Some B&DCs don't issue POS receipts to create evidence of transactions
- Some B&DCs have taken on so many SHGs that they are unable to meet all SHGs even once a month

These are all very serious issues because the loan, under any circumstance, needs to be recovered. And many times, the reason behind the problems are not huge and could have easily been avoided if there was effective monitoring and a committed B&DC. It is extremely important to make sure the B&DCs are doing their jobs everyday. Some ways to achieve this are:

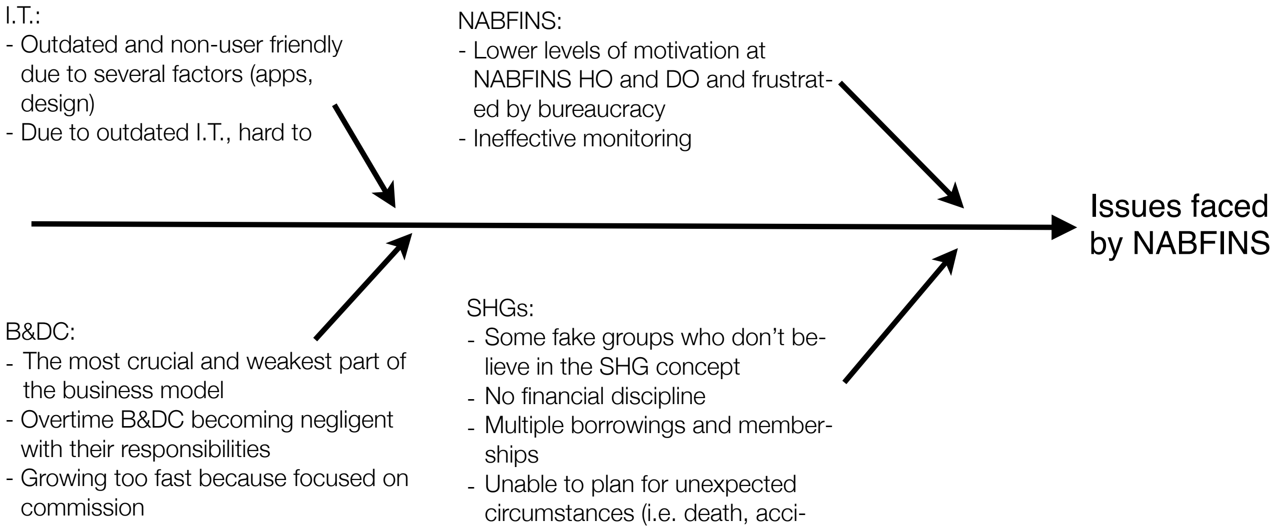
- To create a daily plan which is shared with NABFINS DO
- To communicate at the end of each week to discuss loan recovery and to plan for the week after
- For SHGs, the NABFINS DO staff should communicate with a set number of SHGs everyday to check on their progress
- After the loan is completed, the SHGs should receive a certificate so that they can use it to avail loans from mainstream financial institutions

Commission

In this model, the B&DC is paid 1% commission on disbursement and 1% commission on recovery amount. Overwhelmingly, B&DCs have said they are satisfied with the arrangement under *normal* circumstances. When, the B&DC needs to spend more time for loan recovery work thus incurring costs, they are demanding for extra commission to cover these costs and to motivate their staff members to spend time doing recovery. However, adopting this method is dangerous for NABFINS as this might motivate B&DCs to cause more NPAs and ODs so that this extra commission can be earned. The current strategy is to halt loan disbursements until loan recoveries are not completed. In most areas this seems to be working, but some B&DCs are complaining that they need the commission they earn from disbursement to function and to cover the costs for recovery. Therefore, a balancing act needs to be played by NABFINS, where certain amount of NPA and OD recovery by the B&DC is rewarded in some manner (i.e. if 35% of NPA/OD are recovered, loan disbursements will begin again but only for 2nd linkage, if 55% are recovered then for 1st linkage but only until a certain amount). Some have even suggested of using a 0.5%/2% or 0.5%/1.5% commission model to create an emphasis on loan recovery. The best way to test the methods is through A/B testing. A system of checks needs to be put in place after a B&DC is temporarily banned from loan disbursement so that the B&DC is rewarded for its commission work in some manner.

Below, the Ishikawa's Fishbone Model is used to represent the significant emerging risks in NABFINS Microfinance model. It is then followed by a SWOT Analysis on NABFINS, so that we can gain a bette understanding of what NABFINS is and how it can address these issues.

Ishikawa's Fish Bone Model



SWOT Analysis of NABFINS

Strengths	Weaknesses
1. The strongest strength is that it is promoted and nurtured by NABARD, which holds an extremely positive reputation in India 2. NABFINS staff are highly educated and capable with strong experience 3. The competitive rate received for refinancing from NABARD gives NABFINS a competitive advantage amongst MFIs 4. NABFINS offers a truly unique service which is extremely appreciated by its customers (i.e. door-step delivery, easy access to loans, flexible repayment plans, low interest rates, support from B&DC)	1. NABFINS Business Model is its strength and its weakness. In the model, almost all responsibility is placed upon the B&DC for monitoring and loan recovery and the B&DC is just a partner which can withdraw anytime without facing much legal action 2. NABFINS staff are hired on a contract basis making it harder for the staff to feel corporate citizenship 3. Heavy dependence on NABARD refinancing 4.
Opportunities	**Threats**
1. Numerous underserved markets across India 2. Invest in a larger product offering (i.e. insurances, mutual fund products, pension products, etc) 3. Partnering with more B&DCs thus leading to more SHGs	1. Possible high staff attrition due to contract based jobs 2. B&DC leaving NABFINS without completing its responsibilities

Conclusion

The results of the investigation suggests that there are emerging risks in NABFINS microfinance model, however they can be resolved with strong and permanent action.

It has been identified that NABFINS is facing issues in all aspects of its business model and the reasons can be grouped in two distinct categories which are discussed below:

- Monitoring:
    - Monitoring is the root of most problems. The guidelines prescribed in NABFINS company documentation is very thorough about how the organisation should function, however there are large deviations from the document which are leading to these issues. Ineffective monitoring is causing problems with:
        - B&DC:
            - The B&DCs are becoming negligent in their responsibilities such as creating fake SHGs, promoting SHGs they haven't nurtured, only focusing on commission and delaying loan instalment collections. This is happening because the B&DCs do not have the motivation to do all this work, especially when they've already earned 1% commission. The B&DCs would like to focus on creating new SHGs as it's an easy job.
        - SHG:
            - SHGs are NPA/ODing for various reasons such as migrating for work, members taking multiple loans, taking other member's loans (thus leading to an interest amount they can't afford), not utilising for income-generation (i.e. utilising to repay previous loan), unexpected circumstances (i.e. death, accident), contagion effect and wilful default

- I.T.
    - Information Technology is the reason behind ineffective monitoring. Currently, NABFINS is facing large difficulties in collections sufficient loan data to track patterns so that future decisions can be based on data instead of qualitative information. Additionally, due to outdated information systems, it's difficult to get real-time information of what is going on the field. When the I.T. systems have been upgraded, effective monitoring will be easily achievable

Ineffective Monitoring and Outdated I.T. Systems have been identified as the most significant emerging risk in NABFINS Microfinance Model. This two weaknesses are causing most of the problems that NABFINS is facing today. Immediate action needs to be taken to revitalise and strengthen monitoring and to upgrade the I.T. systems.

Some recommendations to achieve this are:

- Creation of a communication network with NABFINS HO, DO and B&DCs. This communication network will enable transparent communication between B&DCs and NABFINS. This network can be used for sharing of documentation and plans

- Giving more autonomy to NABFINS staff so that innovation can be fostered

- Better incentives (financial and non-financial): most NABFINS and B&DC employees are not purely motivated by salaries, they are also motivated by the work they are doing. Therefore, a mix of financial and non-financial incentives needs to be devised when certain targets, goals or numbers have been achieved

- Detailed operational manual which details what a staff should do under any circumstance. The current operations manual hasn't been updated in a while and is ambiguous

- Implementation of upgraded I.T. Systems along with training of how to use it effectively

- Increasing the staff to meet severe staff shortages

- Strict monitoring of SHGs by B&DCs and NABFINS DO on what the loans are used for

- Periodical review/grading of B&DC

- Creation of a new grading and loan amount determination system which is based on several variables of data which are graded based on probability on risk

- Diversification of product portfolio

- NABFINS entering the recovery work to reduce risk in volatile areas

- A MIS solution that provides information such as

    - Transactions by staff of BC

    - Per person cash exposure

    - Per BC cash exposure

    - Business trends

    - Recovery due dates and collections per staff

    - Area wise data analysis

- Creation of an exclusive B&DC

- A case to case B&DC wise, location wise recovery strategy to ensure full recovery.

- In cases of NPA/OD, a village level recovery plan by working with village elders and other authorities

- Using the services of a third party for audit and loan tracking -

- Providing B&DCs periodical training in how NABFINS work is supposed to be done

- Creation of a loan loss reserve

These all strategies that NABFINS can adopt to improve its monitoring so that it can work on mitigating these risks. NABFINS is still a young organisation, therefore problems are natural. These issues are allowing NABFINS to identify where its weaknesses are, so that they can be strengthened. As NABFINS grows, these measures that NABFINS will put in place now will serve it well.

The unanswered question that remains is that, after NABFINS mitigates these current risks, can the measures taken by NABFINS be included in its permanent strategy? Will the NABFINS staff continue working on high-alert for all regions as they do for problem regions (i.e. Madurai)? Will the B&DCs invest as much time in loan recovery for all regions as they do for problem regions? It is important that the strong measures taken by NABFINS now to reduce the NPA/OD becomes a norm and a requirement of the job, so that these problems don't arise again.