THE SALIENT FEATURES OF RBI MASTER CIRCULAR ON MICRO CREDIT

01. Micro Credit, being part of Financial Inclusion, has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. Micro Credit Institutions are those, which provide these facilities.

- Despite the vast expansion of the formal credit system in the country, marginal farmers, landless labourers, petty traders and rural artisans belonging to socially and economically backward classes and tribes whose propensity to save is limited or too small to be mopped up by the banks, continues to depend on money lenders in many areas as credit to these sections of the population has not been institutionalized.

- In order to minimize the dependence on money lenders, NABARD, APRACA and ILO have carried out a study and brought out the concept of Self Help Groups (SHGs) and launched a pilot project supported by refinance. The selection of the SHGs should be:-

  a) SHGs should be in existence for at least 6 months;

  b) The group should have actively promoted the savings habit;

  c) Groups could be formal (registered) or informal (unregistered); and

  d) Membership of the group could be between 10 to 20 persons.

- The advances given by the banks to the groups were treated as advances to "weaker sections" under the priority sector. NABARD has issued detailed operational guidelines to banks for implementation of the project. The banks were advised that they may consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level and may include the linkage in their corporate strategy/plan, training curriculum of their officers and staff, etc.

- Banks may identify branches having potential for linkage and provide necessary support services to such branches and include SHG lending within their Service Area Plan. Keeping in view the potential realisability, the Service Area Branches may fix their own programme for lending to SHGs as in the case of other activities under the priority sector.

- The SHGs registered or unregistered which are engaged in promoting savings habits among their members would be eligible to open savings bank accounts with banks irrespective whether they have availed credit facilities or not.

- As per operational guidelines of NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4**).** However, in case of

  matured SHGs, loans may be given beyond the limit of 4 times of the savings and simple documentation as per the discretion of the bank.

- The defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

- Banks should evolve/initiate adequate steps to impart suitable training to the field level officials and sensitization of the controlling and other senior officials of the bank being an important step in the Linkage Programme and organize exclusive short duration programmes for the field level functionaries.

- Banks are required to monitor the progress under the project very closely considering the emerging potential of the SHGs and the relative non-familiarity of the bank branches with lending to SHGS. NABARD insists for the progress report in the prescribed format on an half yearly basis i.e. as on 30th September and 31st March every year so as to reach within 30 days of the period it relates on an ongoing basis.

02. <u>NBFCs engaged in micro-financing activities</u>

- NBFCs which are engaged in (i) micro financing activities, (ii) licensed under Section 25 of the Companies Act, 1956 and (iii) which are not accepting public deposits, are exempted from the purview of Sections 45-IA (registration), 45-IB (maintenance of liquid assets) and 45-IC (transfer of profits to Reserve Fund) of the RBI Act, 1934.(Recommendations of NABARD). In order to protect the interests of depositors, microfinance institutions (MFIs) would not be permitted to accept public deposits unless they comply with the extant regulatory framework of the Reserve Bank.

03. <u>Mainstreaming and enhancing outreach</u>

- Banks are required to follow the guidelines for mainstreaming micro credit and enhancing the outreach of micro credit providers (Recommendations of Micro Credit Special Cell of RBI/NABARD) as under :-

(i) The banks to formulate their own model(s) or choose any conduit/ intermediary for extending micro credit by selecting suitable branches/pockets/areas where micro credit programmes can be implemented.

(ii) Banks may prescribe criteria for selection of micro credit organizations to deal with having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow-up.

(iii) Banks may prescribe their own lending norms/products/terms & conditions, etc. Keeping in view the ground realities local conditions and the need for provision of finance to cover not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

(iv) Micro credit should be included in branch credit plan, block credit plan and state credit plan of each bank. Micro credit should also form an integral part of the bank's corporate credit plan and should be reviewed at the highest level on a quarterly basis.

(v) Simplification of procedures and documentation and to sanction and disburse micro credit expeditiously by delegating adequate sanctioning powers to branch managers.

04. Delivery Issues

Banks have been advised by RBI as under:

(i) Providing adequate incentives to their branches in financing the Self Help Groups (SHGs) and making the procedures absolutely simple and easy and flexibility to suit local conditions.

(ii) The group dynamics of working of the SHGs may be left to themselves and need neither be regulated nor formal structures imposed or insisted upon.

(iv) The approach to micro-financing of SHGs should be totally hassle-free and may include consumption expenditures.

05. Financing of MFIs by banks

RBI has brought to the notice of banks its observations for correction by the latter that :-

(i) Some of the MFIs financed by banks or acting as their intermediaries/partners appear to be focussing on relatively better banked areas including areas covered by the SHG-Bank linkage programme resulting in multiple lending and overburdening of rural households.

(ii) Some MFIs were disbursing loans to the newly formed groups within 10-15 days of their formation in contrast to the practice obtaining in the SHG - Bank linkage programme which takes about 6-7 months for group formation / nurturing / handholding thereby defeating sense of purpose.

(iii) Banks, as principal financiers of MFIs, do not appear to be engaging them with regard to their systems, practices and lending policies with a view to ensuring better transparency and adherence to best practices. In many cases, no review of MFI operations was undertaken after sanctioning the credit facility.

06. Total Financial Inclusion and Credit Requirement of SHGs

- Banks are advised to meet the entire credit requirements of SHG members, as envisaged in the Union Budget announcement for the year 2008-09. Banks would be encouraged to implement the concept of ‘Total Financial Inclusion’ by meeting the entire credit requirement of the SHG members viz. (a) Income generation, (ii) Social needs like housing, education, marriage, etc. and (c) debt swapping.

(FOR DETAILED CLARIFICATION/EXPLANATION, RBI MASTER CIRCULAR NO. DBOD.No. Dir.BC.No. 53/12.01.001.2010-11 DT. 14.02.2011 MAY BE REFERRED TO)

o0o0o0o0o0o