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Guidelines on Micro Credit

Micro credit extended by the banks to individual borrowers directly or through intermediary would be reckoned as part of their priority sector lending. This was stated by the Reserve Bank of India in a circular prescribing guidelines for micro credit. The circular was issued recently by the Reserve Bank to all scheduled commercial banks.

Definition

In the circular, micro credit 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 living standards. Micro credit institutions are those which provide these facilities.

Targets

The Reserve Bank guidelines intend to provide maximum flexibility to the banks in regard to micro lending in order to enable them to evolve their own model(s) or choose any conduit/intermediary keeping in view the prevalent local conditions and the need for provision of finance to the poor. The guidelines have therefore not specified any interest rate nor have they prescribed any targets to be achieved for micro lending. According to the Reserve Bank guidelines, banks can devise their own model(s), prescribe their own criteria for selection of micro credit organisation and lending norms as also interest rates for micro lending.

Selection Criteria

While not prescribing any criteria for selection of micro credit organisations, the Reserve Bank guidelines have, however, indicated to banks that it might be desirable for them to deal with micro credit organisations having proper credentials, track record,

system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow-up.

Models

The Reserve Bank has also advised banks to formulate their own model(s) or choose any conduit/intermediary for extending micro credit. Banks may choose suitable branches/pockets/areas where micro credit programmes can be implemented. The Reserve Bank has, however, suggested that it might be useful for banks to start with a selected small area and concentrate fully on the poor in that area and then with the experience gained replicate the arrangements in other selected areas.

Lending Norms

Similarly, the Reserve Bank has asked the banks to prescribe their own lending norms keeping in view the ground realities. The banks have, however, been asked to devise appropriate loan and savings products and the related terms and conditions including the size of the loan, unit cost, unit size, maturity period, grace period margins, etc. The Reserve Bank has indicated that such credit should 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.

Interest Rates

The Reserve Bank has left the interest rates applicable to loans extended to micro credit organisations or by the micro credit organisations to self-help groups/member beneficiaries to the discretion of the banks. It has, however, stated that the interest rate ceiling applicable to direct small loans given by banks to individual borrowers would continue to remain in force.

Micro Credit Plans

The Reserve Bank has asked banks to include micro credit in branch credit plan, block credit plan, district credit plan and state credit plan. While no target has been prescribed for micro credit, banks are required to accord utmost priority to the micro credit sector in preparation of these plans. As per the RBI guidelines, 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. For augmenting flow of micro credit, banks have been asked to remove all operational irritants and make arrangements to expeditiously sanction and disburse micro credit by delegating adequate sanctioning powers to branch managers. Banks have also been asked to simplify the loan application forms, procedures and documents to provide prompt and hassle-free micro credit. Banks have to furnish a statement to the Reserve Bank on a half-yearly basis indicating the amount of micro credit disbursed by the bank.

It may be recalled that a micro credit special cell was set up in the Reserve Bank to suggest measures for augmenting flow of micro credit. A task force on supportive policy and regulatory framework for micro credit was also set up by the National Bank for Agriculture and Rural Development. Both the groups have since submitted their reports.

(For a dossier on Micro Finance, please see Credit Information Review, January 2000)

Savings Accounts for Zilla Parishads/Gram Panchayats

The Reserve Bank of India has now allowed public sector banks to open savings bank accounts in the name of Zilla Parishads/Gram Panchayats in respect of funds released for implementation of various rural development/welfare programmes and/or subsidy/margin-money linked programmes sponsored by the State Governments/ Government of India.

The Reserve Bank had earlier this year allowed public sector banks to open savings bank accounts in the name of Collector/District Magistrate/District Commissioner in respect of funds released for implementation of Member of Parliament Local Area Development Scheme (MPLADS) where the works under the scheme are executed through Planning Department of the State Government. Public sector banks were also allowed to open savings bank account under MPLADS scheme in the name of District Rural Development Agency (DRDA). Public sector banks can now open savings bank accounts in the name of Zilla Parishads/Gram Panchayats in respect of funds released for implementation of any rural development/welfare programmes sponsored by the state governments and central government.

National Agricultural Insurance Scheme

The Reserve Bank of India has advised all scheduled commercial banks (excluding Regional Rural Banks) to immediately issue necessary instructions/operational guidelines as well as to provide various forms in the vernacular language to all the branches/controlling offices in all States to ensure speedy implementation of the National Agricultural Insurance Scheme from the current Rabi Season 1999-2000. The scheme as formulated by the Ministry of Agriculture, Government of India was already circulated among the banks in August last.

Reconstitution of SLEPC

The Reserve Bank of India has decided, with the approval of the Government of India, to also include private sector banks in the State Level Export Promotion Committee (SLEPC). Accordingly, one or two senior most officers of private sector banks having considerable volume of export financing business in the State/Union Territory would be posted as members of the committee.

Annual Credit Plan for 2000-2001

The Reserve Bank of India has advised all Indian Scheduled Commercial Banks to draw up the annual credit plan for 2000-2001 so as to launch them on April 1, 2000. The Reserve Bank has also asked the banks to convey to their regional offices, the date of launching of the Annual Credit Plan in various districts.

Opening of Credit Card Centres

It has been decided that foreign banks may in future set up credit card centres and obtain a post-facto licence from the concerned regional office of the Reserve Bank. The licence has to be obtained from the Department of Banking Operations and Development of the Reserve Bank in whose jurisdiction the principal office of the foreign bank in India is located, within one month from the setting up of the credit card centres. These centres will undertake only credit card related activities, such as, attending to the request for and issue of credit cards, processing of credit cards, acceptance of credit card payment by cheques, etc. The Reserve Bank of India has advised banks to submit a list of credit card centres set up by them with detailed addresses as on March 31 every year.

Collection of Outstation Cheques

The Reserve Bank of India has reiterated its earlier advice to commercial banks to ensure that where delays in collection of outstation cheques occur, the account holders should be paid penal interest without their making such a request. The Reserve Bank has asked the commercial banks to issue necessary instructions to their branches to ensure strict compliance of these instructions so as to avoid any room for representation from public.

Prudential Norms for Export Project Finance

The Reserve Bank of India has modified the guidelines on export project finance. The modified guidelines have been issued in view of the recommendations of the working group on classification of assets in respect of export project finance extended by banks and financial institutions. The following are the modifications made in the guidelines:

(i) Country risk: There could be instances where the actual importer has paid the dues to the bank abroad but the bank in turn is unable to remit the amount due to political developments, such as, war, internal strife, UN embargo, etc. In such cases, where the concerned (lending) bank is able to establish through documentary evidence that the importer has already cleared the dues in full by depositing the amount in the bank abroad before it turned into a non-performing asset (NPA) in the books of the bank but the importer's country is not allowing the funds to be remitted due to political or other reasons, the extant prudential norms relating to income recognition, asset classification and provisioning may be made applicable after a period of one year from the date the amount was deposited by the importer in the bank abroad.

(ii) Reserve for Exchange Rate Fluctuations Account (FERFA): When exchange rate movements of Indian rupee turn adverse, the outstanding amount of foreign currency denominated loans (where actual disbursement was made in Indian rupee) which becomes past due, goes up correspondingly, with its attendant implications of provisioning requirements. It has been decided that such assets should not normally be revalued. In case such assets need to be revalued as per requirement of accounting practices or for any other requirements, the following procedure may be adopted:

- a) The loss on account of revaluation has to be booked in the bank's profit and loss account;
- b) Besides the provisioning requirement as per asset classification, the banks should treat the full amount of the revaluation gain relating to the corresponding assets, if any, on account of foreign exchange fluctuation as provision against the particular assets.

(iii) ECGC claims received and held pending adjustment : As per ECGC's existing procedure, the amounts received from ECGC towards the settlement of claims are required to be kept in a separate current account by the banks so that the lending bank can have recourse to the borrower. Accordingly, the claims settled by ECGC are not to be treated as recovery as per the extant norms. Banks are advised that the amounts received by them from the ECGC in settlement of claims and kept in a separate current account, due to technical reasons could be allowed to be adjusted against the dues outstanding in the respective accounts. Recourse to the borrower by the lending banks, till the final settlement of dues should, however, be preserved.

Capital Investment Subsidy Scheme for Cold Storages

The Reserve Bank of India has advised all scheduled commercial banks (including regional rural banks) to follow the following procedure for the implementation of the system of Bank End Capital Subsidy through which the capital investment subsidy scheme for the construction/expansion/modernisation of cold storage and storages for horticulture produce would be implemented.

The subsidy admissible to the borrowers under the scheme should be kept in a separate subsidy reserve fund account borrower-wise instead of in term deposit in the name of the borrower. No interest should be applied on the subsidy reserve fund account by banks. In view of this, for the purpose of charging interest on the loan, the subsidy amount should be excluded. The balance lying to the credit of such subsidy reserve fund account would not form part of demand and time liability (DTL) for the purpose of SLR/CRR.

Bank Guarantees

The Reserve Bank of India has clarified to the banks that the business of the government of India is transacted through several ministries/departments and even though documents such as, guarantees, reflect the President of India as one of the parties, correspondence should not be exchanged with the President of India but with the government ministry/department.

Golden Jubilee Year of Rajabhasha

The Reserve Bank of India has advised public sector banks to celebrate the occasion of Golden Jubilee Year of the official language 1999-2000 (i.e. September 14, 1999 to September 14, 2000) by organising various Hindi competition functions and other programmes on large scale.

Inter-branch Accounts – Provisioning Net Debit Balance

It has been decided to reduce the time lag from three years to two years for making provision against net debt balance in inter-branch accounts with effect from the accounting year ending March 31, 2001. Accordingly, banks should segregate the debit and credit entries in Inter-branch Accounts pertaining to the period up to March 31, 1998 and outstanding as on March 2001 and arrive at the net position. In case of a net debit, a provision equivalent to 100 percent thereof may be made for the year ended March 2001. While doing so, the credit balance in the Blocked Account created in terms of earlier instructions issued by Reserve Bank of India in July 1998 may also be taken into account.

Taking into consideration the various difficulties expressed by banks in maintaining category-wise (head-wise) accounts for various types of transactions put through inter-branch accounts a format to capture data under a few broad categories of Inter-branch transactions is being finalised by Reserve Bank in consultation with banks. It is expected that the banks would be in a position to maintain category-wise (head-wise) accounts for various types of transactions put through Inter-branch Accounts, beginning from April 1, 1999. It would thereafter be possible for banks to arrive at the net debit position of entries remaining unreconciled for two years and above, category-wise, as at March 31, 2002 and onwards.

Bankers' Books Evidence Act, 1891

The Reserve Bank of India has advised all scheduled commercial banks (excluding regional rural banks) that in the event of need for production of evidence to prove entries in Bankers' Books in any legal proceedings before courts, tribunals, consumer forums, etc., they may be guided by Section 4 read with the provision of section 2 (8) of the Bankers' Books Evidence

Act, 1891. This would obviate the need for production of volumes of original records of the bank and would also avoid administrative and procedural inconvenience which is normally caused in the event of such records remaining in the custody of the court till completion of such proceedings. Banks should, however, ensure that original documents/ records which are the subject matter of such legal proceedings are preserved at their end till the final disposal of the proceedings notwithstanding the provisions of the Banking Companies (period of preservation of records) Rules 1985. The advice was contained in a judgement delivered by the Special Court (Trial of Offences relating to Transactions in Securities).

Payment of Brokerage/Commission

It has been decided to restore payment of brokerage/commission to all eligible primary co-operative banks in respect of their subscriptions to state loans. This has been done with a view to streamlining the issue of state loans.

Brokerage - Brokerage would be paid to recognised banks and brokers at the rate of six paise per Rs.100/- or any other rate notified in future. It would be paid on allotments made in respect of applications for the loan tendered by them on behalf of their clients and bearing their stamp.

Commission - Commission at the rate of six paise per Rs. 100/- would be paid to banks, primary dealers and satellite dealers registered with the Reserve Bank of India, Life Insurance Corporation, General Insurance Corporation and its subsidiaries, provident funds and gratuity funds on their own subscriptions only if the applications are submitted by them direct to the receiving offices. On any application either commission or brokerage would be payable and not both. At present, no brokerage/commission is being paid on investments by primary (urban) co-operative banks in central government loans.

New Software for Clearing in Mumbai

The Brihanmumbai Bankers' Clearing House has migrated to (MMBCS) software package from December 22, 1999. Member banks have been advised to note that from December 22, 1999, Brihanmumbai Bankers' Clearing House would accept from member banks clearing data only in MMBCS package. Member banks have been advised not to present clearing data in existing FBICS package from December 22, 1999. Member banks have been advised to note that :

- a) Only 3 1/2" (1.44 MB-Small) floppies are used, to submit clearing data.
- b) Such small floppies submitted to Brihanmumbai Bankers' Clearing House should be free from virus and bad sectors. Since they could cause data loss/corruption, member banks are advised to have their floppies thoroughly scanned for virus and fix bad sector, if any.
- c) Clearing data for each Zone should be submitted separately.
- d) Before floppies with clearing data are sent to Brihanmumbai Bankers' Clearing House, member banks must satisfy themselves, that the floppies contain relevant data in full. They should also be in a position to rush a duplicate floppy, if required by Brihanmumbai Bankers' Clearing House, in the likely event of their floppy not being accepted for whatever reasons.
- e) Member banks should not alter the data structure given by Reserve Bank of India or edit the data, lest it may corrupt the data and Reserve Bank of India, Brihanmumbai Bankers' Clearing House will not be responsible for such data loss or corruption or both. If settlement is affected on account of any alteration only the concerned member bank would be held responsible.

- f) Member banks should depute knowledgeable/responsible representatives for clearing operations.
- g) Member banks are advised to be in a state of preparedness to carry out Y2K contingency clearing plans/instructions at a short notice.

Banking Chintan-Anuchintan

Banking Chintan Aunchantan is the sole Hindi magazine dedicated to subjects relating to banking, the copies of which are forwarded to branches, offices and training establishments of banks and to the Regional offices and various departments of the Reserve Bank of India. The magazine is published by the Banker's Training College of the Reserve Bank of India on a quarterly basis. The purpose of this magazine is to make available material originally written in Hindi relating to banking and other related issues. The magazine publishes informative articles written by experts on economics, finance, financial markets, capital markets, commerce, law, human resource development, executive health, psychology, banking, computer, information technology. Those appearing for CAIIB through Hindi medium are much benefitted by this magazine. Honorarium is also paid for the articles published in this magazine.

Edited and published by **Alpana Killawala** for the **Reserve Bank of India**, Press Relations Division, Central Office, Shahid Bhagat Singh Marg, Mumbai 400 001 and printed by her at **Mouj Printing Bureau**, Khatau Wadi, Girgaon, Mumbai 400 004. Annual Subscription : Rs. 12. Subscription to be remitted to the Director, DRRP (Sales Section), DEAP, Reserve Bank of India, Amar Building, Sir P.M. Road, P.B. No. 1036, Mumbai - 400 001. Also available on internet at www.cir.rbi.org.in