

Micro Credit

RPCD.NO.PL.BC. 62 /04.09.01/99-2000

February 18, 2000

To
All Scheduled Commercial Banks
(including Regional Rural Banks)

Dear Sir

MICRO CREDIT

A Micro Credit Special Cell was set up in RBI to suggest measures for augmenting flow of micro credit. Please refer in this connection to paragraph 64 of our circular No. BC.185/07.01.279/98-99 dated April 20, 1999 and paragraph 51 of our circular No. BC.190/07.01.279/98-99 dated October 29, 1999. This Cell has since submitted its report. In the meantime, a Task Force on Supportive Policy and Regulatory Framework for Micro Credit was set up by NABARD and its report has also been presented. Micro credit is 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.

2. In this context, it has been decided that banks may follow the undernoted guidelines for mainstreaming micro credit and enhancing the outreach of micro credit providers:

- (i) As mentioned in our circular RPCD.No.PL.BC. 94/04.09.01/98-99 dated April 24, 1999, interest rates applicable to loans given by banks to micro credit organisations or by the micro credit organisations to Self-Help Groups/member beneficiaries has been left to their discretion. The interest rate ceiling applicable to direct small loans given by banks to individual borrowers, however, continues to remain in force.
- (ii) The banks may formulate their own model(s) or choose any conduit/intermediary for extending micro credit. They may choose suitable branches/pockets/areas where micro credit programmes can be implemented. It will be useful in our view to start with a selected small area and concentrate fully on the poor in that area and thereafter with the experience gained replicate the arrangement in other selected areas. Micro Credit extended by banks to individual borrowers directly or through any intermediary would be reckoned as part of their priority sector lending.
- (iii) The criteria for selection of micro credit organisations are not being prescribed. It may, however, be desirable for banks 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.
- (iv) Banks may prescribe their own lending norms keeping in view the ground realities. They may 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 intention is to provide maximum flexibility in regard to micro lending keeping in view the prevalent local conditions and the need for provision of finance to the poor. Such credit should, therefore, 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.
- (v) Micro credit should henceforth be included in branch credit plan, block credit plan, district credit plan and state credit plan of each bank. While no target is being prescribed for micro credit, utmost priority should be accorded to the micro credit sector in preparation of these plans. As advised in our circular RPCD.PL.BC.28/04.09.22/99-2000 dated September 30, 1999, 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.

(vi) A simple system requiring minimum procedures and documentation is a pre-condition for augmenting flow of micro credit. Hence banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse micro credit by delegating adequate sanctioning powers to branch managers. The loan application forms, procedures and documents should be made simple. It would help in providing prompt and hassle-free micro credit.

(vii) A statement should be furnished to RPCD, RBI on a half-yearly basis indicating the amount of micro credit disbursed by the bank. In this connection, we have revised the format for the Progress Report on the Financing of Self-Help Groups by banks presently being submitted by you to both NABARD and us as prescribed vide our circular RPCD.PL.969/04.09.22/97-98 dated May 05, 1998. A copy of the revised statement format is enclosed. The first such statement should relate to the period ending March 2000.

Banks should initiate immediate action in regard to the above under advice to us.

3. Please acknowledge receipt of this letter.

Yours faithfully

(B.R. Verma)
Chief General Manager-in-Charge

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