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**RBI releases Draft Report of the Internal Group  
on Rural Credit and Micro Finance**

The Reserve Bank of India (RBI) today released the Report of the Internal Group on Rural Credit and Micro Finance. The Group was set up to examine the issue of allowing banks to adopt the "agency" model by using the Civil Society Organisations (CSOs) and other external entities for providing credit support to the rural and farm sectors, study the feasibility and modalities of appointment of "Banking Correspondents" to function as intermediaries between the lending banks and the beneficiaries, suggest steps to promote Micro Finance Institutions (MFIs) and examine the extent of regulation, if need be, of MFIs.

It may be recalled that the Hon'ble Finance Minister in his statement on Union Budget - 2005-06 had suggested that the RBI should examine the above issues so that the banks would give more focus to provide credit to the rural and farm households through innovative measures and promote and empower MFIs so that they can intermediate between the lending banks and the beneficiaries. Dr.Y.V.Reddy, Governor, RBI, in his Annual Policy Statement - 2005-06 had also stressed the need for the banks to review their existing practices so as to align them with the objectives of financial inclusion.

The Group examined various policy options and strategies for enlarging the outreach of the banks through wide consultations with various stake holders and also reviewed the recommendations made by various committees on regulation of the micro finance sector. To deepen and widen the financial services provided by banks particularly to the under-served areas and the rural poor, the Group has suggested two Models, viz. the Business Facilitator Model and the Business Correspondent Model for providing non-financial support services and financial services as "pass through" agents respectively by leveraging MFIs/NGOs, Civil Society Organisations and other external entities. The Group has also made recommendations relating to promotion, development and rating of MFIs and other outreach entities and mechanisms including widespread use of Information and Communication Technology (ICT) for expansion of banking outreach in a convenient, secured and cost effective manner. In relation to the regulation of MFIs, the Group has noted that the major players undertaking micro finance activities are well regulated entities like banks and NBFCs and the models of Business Facilitators/ Correspondents suggested by the Group would forge stronger linkage between the NGOs-MFIs and the banks under a framework of due diligence and rating. As such, most part of micro finance portfolio will remain under the banks and the NBFCs, which come under the regulatory framework of RBI. Hence, a separate and exclusive regulatory framework for MFIs may not be required for the present.

The draft report of the Group is available on the RBI's website ([www.rbi.org.in](http://www.rbi.org.in)). Views/ comments may be sent to [cgmincrpcd@rbi.org.in](mailto:cgmincrpcd@rbi.org.in) or [gsrcinivasan@rbi.org.in](mailto:gsrcinivasan@rbi.org.in) or may be faxed to 022-2265 8276/ 022-2265 8273 by July 02, 2005.

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