प्रेस प्रकाशनी PRESS RELEASE

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RBI Measures to extend Credit Support to Micro Finance Institutions

The Reserve Bank of India has today advised certain relaxation to banks in its present restructuring guidelines in order to enable them to extend credit support to micro finance institutions (MFIs). The relaxation is purely a temporary measure and would be applicable to bank loans to MFIs restructured by banks up to March 31, 2011, the Reserve Bank has stated.

Relaxation considered

The Reserve Bank has asked banks to extend the regulatory asset classification benefit to standard restructured MFI accounts, even if they were not fully secured. This relaxation was given considering the fact that the problems afflicting the MFI sector were not necessarily on account of any credit weakness *per-se* but were mainly due to environmental factors. This measure initiated by the Reserve Bank is expected to impart some liquidity support by banks to MFIs and facilitate a 'holding on' operation for some time till the Malegam Committee submits its report and measures are taken to bring about long term and structural changes in the functioning of MFIs. The Reserve Bank has also advised banks that they should endeavour to recycle the collections to MFIs so as to ensure that the intended 'holding on' operation is successful.

Background

The Reserve Bank of India had held discussions with select banks on December 22, 2010 to get an assessment regarding the ground level situation in microfinance sector in Andhra Pradesh and other States and the need for any interim measures. The banks informed that collections by MFIs in Andhra Pradesh had deteriorated considerably and there were some incipient signs of contagion spreading to other States. Subsequently, the Indian Banks' Association (IBA) based on the banks' feedback came up with a proposal that there was a need for extending certain relaxations in the restructuring guidelines of the Reserve Bank for the MFI sector. It observed that bank loans to MFIs were mostly unsecured but to avail of the regulatory asset classification benefits under the present restructuring guidelines of the Reserve Bank, the accounts had to be fully secured. The banks had also stressed on the need to work out an interim arrangement involving, among other things, rescheduling of exposures to MFIs subject to certain covenants, such as, MFIs agreeing to reduce their leverage and growth projections.

Alpana Killawala
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