

IV

CREDIT DELIVERY AND FINANCIAL INCLUSION

Financial inclusion is an important process to attain the goal of inclusive growth. Accordingly, the Reserve Bank of India has made sustained efforts to increase the penetration of formal financial services in unbanked areas, while continuing with its policy of ensuring adequate but viable flow of credit to priority sectors of the economy. Financial literacy efforts of the Reserve Bank, particularly the outreach programme, generated significant interest and exuberant participation from public and banks/financial institutions. Regulatory actions to further financial inclusion included changes in KYC norms, relaxing branch authorization policy, widening eligible entities to function as business correspondents, and requiring minimum percentage of additional branches to be opened in unbanked rural centres.

IV.1 Credit delivery in a country as diverse as India poses many a challenge including bringing those sections of society that are financially excluded into the ambit of formal financial system, providing financial literacy, reforming credit delivery mechanisms, among others. The Reserve Bank of India continued with its various initiatives in this area such as rolling out the Financial Inclusion Plans (FIP), encouraging multiple channels of lending and enhancing the scope of the Business Correspondent (BC) model, improving credit delivery procedures in micro and small enterprises (MSE) sectors and encouraging adoption of Information and Communication Technology (ICT) solutions.

PRIORITY SECTOR LENDING

IV.2 The focus of priority sector lending is to enhance credit facilities for those priority sectors that impact large sections of the population, the weaker sections and the sectors which are employment intensive such as agriculture and micro and small enterprise (MSE). As on the last reporting Friday of March 2011, 15 out of 81 banks had not achieved the priority sector lending target (Table IV.1).

IV.3 Scheduled commercial banks (SCBs) having shortfall in lending to priority sector/subsectors *vis-a-vis* the stipulated targets, will be required to contribute to the corpus of Rural Infrastructure Development Fund (RIDF) and similar funds set up with National Bank of Agriculture and Rural Development (NABARD) / Small Industries Development Bank of

India (SIDBI) / National Housing Bank (NHB). The corpus of such funds are announced every year by the Government of India.

IV.4 The Union Budget 2011-12 announced to set up RIDF XVII (corpus of ₹18,000 crore of which ₹2,000 crore will be dedicated to creation of warehousing facilities), Short Term Co-operative Rural Credit (STCRC) (Refinance) Fund (corpus of ₹10,000 crore), Micro, Small and Medium Enterprise (MSME) (Refinance) Fund (corpus of ₹5,000 crore), and Rural Housing Fund (corpus of ₹3,000 crore) with NABARD, SIDBI, NHB, respectively during the year.

Flow of Credit to Agriculture Sector

IV.5 The Government had announced a target of ₹3,75,000 crore for flow of agricultural credit in 2010-

Table IV.1: Priority Sector Advances

(Amount in ₹ crore)

	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2010*	8,63,777 (41.6)	2,14,669 (45.8)	59,960 (36.0)
2011*	10,22,925 (41.0)	2,49,139 (46.7)	66,796 (39.1)

- Notes:**
- * : As on the Last Reporting Friday of March.
 - Figures in brackets are percentages to ANBC or credit equivalent of OBE, whichever are higher as on March 31 of the previous year, in the respective groups.
 - The target for aggregate advances to the priority sector is 40 per cent of the ANBC or credit equivalent of OBE, whichever is higher for domestic banks and 32 per cent for the foreign banks.
 - Data for 2011 are provisional.

Source: Provisional data reported by banks.

Table IV.2: Disbursements under SACP by Public Sector Banks

(Amount in ₹ crore)				
Year	Target	Achievement	Percentage of Achievement	Annual growth of in Disbursement (%)
1	2	3	4	5
2007-08	1,52,133	1,33,226	87.6	8.8
2008-09	1,59,470	1,65,198	103.3	24.0
2009-10	2,04,460	2,07,347	101.4	26.0
2010-11*	2,29,709	2,05,367	89.4	-0.95

*: Data are provisional.

11, of which 119 per cent had been achieved by end-March, 2011(provisional) by banks including co-operative banks and regional rural banks (RRBs). The target for the year 2011-12 is ₹4,75,000 crore for disbursement to agriculture by all agencies. Banks have been advised to step up direct lending to agriculture and credit to small and marginal farmers.

IV.6 The disbursements by the public sector banks to agriculture under Special Agricultural Credit Plan (SACP) for the financial year 2009-10 was at ₹2,07,347 crore against that of ₹2,04,460 crore last year (101.4 per cent of the projected amount) whilst that of the private sector banks was a disbursement of ₹78,452 crore against the projection of ₹62,352 crore (126 per cent of the projected amount). Disbursements by the public sector banks under SACP for the last three years are as set out in Table IV.2.

IV.7 Recovery rate for direct agricultural advances for the year ended 2010 showed moderate decline as compared to the rise seen in the previous year (Table IV.3).

IV.8 For the year 2010-11, the Government lowered the rate of interest subvention for short-term

Table IV.3: Recovery of Direct Agricultural Advances

(Amount in ₹ crore)				
Year ended June	Demand	Recovery	Overdues	Percentage of recovery to demand
1	2	3	4	5
2008	95,100	71,739	23,361	75.4
2009	1,19,084	90,660	28,425	76.1
2010*	92,905	68,665	24,240	73.9

*: Data are provisional.

production credit up to ₹3 lakh to 1.5 per cent while the additional interest subvention for prompt paying farmers was raised to 2 per cent; accordingly the effective interest rate charged to such farmers is likely to come down to 5 per cent per annum.

IV.9 As per the reimbursement schedule for Agricultural Debt Waiver and Debt Relief Scheme, the Government of India released the 3rd instalment of ₹11,340 crore in January 2011 of which ₹1,240 crore was passed on to NABARD for reimbursement to RRBs and co-operatives and the remainder amount (₹10,100 crore) was utilised for reimbursing SCBs, local area banks (LABs) and urban co-operative banks (UCBs) (Table IV.4).

Flow of Credit to Micro, Small and Medium Enterprises (MSMEs)

IV.10 In order to study various issues relating to MSMEs, a High Level Task Force was constituted by the Government of India (Chairman: Shri T K A Nair, Principal Secretary to the Prime Minister). SCBs were accordingly advised in June, 2010 to increase their share of lending to micro enterprises in MSE to 60

Table IV.4: Compensation of lending institutions under Agricultural Debt Waiver and Debt Relief Scheme, 2008

Lending Institutions	Proposed Reimbursement*			
	1st instalment Sep-08	2nd instalment Jul-09	3rd instalment Jul-10	4th instalment Jul-11
1	2	3	4	5
RRBs and Co-operatives	17,500	10,500	2,800	Balance amount, if any
SCBs, UCBs and LABs	7,500	4,500	9,200	Balance amount, if any
Total	25,000	15,000	12,000	Balance amount

*: Based on the current provisional estimates.

per cent in three stages (*viz.*, 50 per cent in the year 2010-11, 55 per cent and 60 per cent in the subsequent years) with 10 per cent annual growth in the number of micro enterprise accounts and also 20 per cent year-on-year growth in MSE lending. A suitable format has been devised by the Reserve Bank to capture and closely monitor the achievement of these targets by banks on a half yearly basis *i.e.*, in March and September.

IV.11 The Union Budget 2011-12 proposed to liberalise the existing scheme of interest subvention of 1 per cent on housing loans by extending it up to ₹15 lakh where the cost of the house does not exceed ₹25 lakh from the present limit of ₹10 lakh and ₹20 lakh, respectively. Accordingly, necessary instructions were issued to all SCBs (excluding RRBs) on April 21, 2011.

IV.12 Reflecting the revival in demand conditions in 2010-11, the total credit to MSE from the SCBs increased by 33.7 per cent during the year (Table IV.5).

IV.13 Based on the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions (Chairman: Prof. A. Vaidyanathan) the Government of India, in consultation with State Governments, had approved a package for revival of the short-term rural cooperative credit structure (ST CCS), consisting of Primary Agricultural Credit Societies (PACS) at the village/base level, central co-operative banks (CCBs) at the intermediate level and the state co-operative banks (StCBs) at the apex level. Aside from aiming at reviving the ST CCS to make it an efficient medium to serve the credit needs of rural India, especially the small and marginal farmers, the

package also seeks to (i) provide financial assistance to bring the system to an acceptable level of health; (ii) introduce legal and institutional reforms necessary for its democratic, self reliant and efficient functioning; and (iii) take measures to improve the quality of management.

IV.14 The twenty-five states willing to participate were required to enter into a Memorandum of Understanding (MoU) with the Central Government and NABARD. This covers more than 96 per cent of the ST CCS units in the country. Also, twenty one states have amended their respective State Cooperative Societies Act through legislative process.

IV.15 An aggregate amount of ₹8,993 crore has been released by NABARD (up to end-June, 2011) towards Government of India's share for recapitalisation of PACS in 16 states while the State Governments have also released their share of ₹854 crore. The implementation of the revival package on an all India basis is supervised by the National Implementing and Monitoring Committee, set up by the Government of India.

IV.16 The Reserve Bank regulates StCBs and district central co-operative banks (DCCBs) under the Banking Regulation Act, 1949 (AACS), while the NABARD supervises them. Subsequent to the issuance of revised guidelines (in consultation with NABARD) in October 2009 on licensing of StCBs/ DCCBs, 10 StCBs and 160 DCCBs have been licensed taking the total number of licensed StCBs and DCCBs to 24 and 235 respectively, as at end-June, 2011.

IV.17 With a view to liberalizing the branch licensing for RRBs, they were allowed to open branches in Tier 3 to Tier 6 centres as identified in the Census 2001 (with population up to 49,999), without having the need to take permission from the Reserve Bank in each case, subject to reporting, provided they fulfill certain conditions. Accordingly, instructions were issued to all RRBs and their sponsor banks in November 2010.

IV.18 The Working Group of Technology Upgradation in RRBs (Chairman: Shri G.Srinivasan)

Table IV.5: Credit to MSE Sector by SCBs

	Outstanding credit to MSE		MSE/SSI credit as per cent of ANBC
	No. of Accounts (in Million)	Amount (in ₹ crore)	
1	2	3	4
2010	8.5	3,62,291 (41.4)	13.4
2011*	9.3	4,84,473 (33.7)	9.9

*: As on the Last Reporting Friday of March.

Note: 1. Figures in parantheses indicate per cent growth in credit over the previous year.
2. Data for 2011 are provisional.

had recommended that Core Banking Solution (CBS) should be fully implemented in all RRBs by September 2011. As on date, CBS has been fully implemented in 45 out of the total 82 RRBs, while it is in progress in the remainder.

FINANCIAL INCLUSION

IV.19 Financial inclusion broadly refers to the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost, in a fair and transparent manner by mainstream institutional players. Despite

widespread expansion of the banking sector, a significant proportion of the households, especially in rural areas, remain outside the coverage of the formal banking system. The proportion of rural residents who lack access to bank accounts is about 40 per cent, and this rises to over three-fifths in the eastern and north-eastern regions of India.

IV.20 Moving towards universal financial inclusion has been a policy priority for the Reserve Bank over the last few years since financial inclusion becomes a critical financial component for ensuring sustainable and equitable economic growth (Box IV.1).

Box IV.1

Financial Inclusion and Inclusive Growth: What the Empirical Evidence Suggests?

Inclusive growth as a strategy of economic development has received renewed attention in recent years owing to rising concerns that the benefits of economic growth have not been equitably shared. Growth is inclusive when there is equality of economic opportunities. Financial inclusion makes growth broad based and sustainable by progressively encompassing the hitherto excluded population. Financial inclusion is no longer a policy choice but a policy compulsion.

Banks and other financial services players are expected to mitigate the supply side bottlenecks that hinder the poor and disadvantaged social groups from gaining access to the financial system. Empirical evidence suggests that access to financial products is constrained by several factors which include: lack of awareness about the financial products, unaffordable products, high transaction costs, and products which are inconvenient, inflexible, not customised and of low quality. Microfinance and financial literacy play pivotal roles in addressing these issues.

Empirical evidence shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and higher inequality. The inclusive growth country analytics has a distinct character focusing on the pace and pattern of growth. Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and include a large part of the country's labour force. This analytics of inclusive growth implies a direct link between the macro and micro determinants of growth.

The main instrument for a sustainable and inclusive growth is productive employment. Against this backdrop, studies based on application of the Tobit model on national-level cross-sectional household data for 2001 on the Indian economy show a highly significant positive relationship between productive loan amount and households poverty after controlling for socio-economic characteristics. Panel

data studies of Bangladesh observe that access to microfinance contributes to poverty reduction, especially for female participants. Cross country studies on factors associated with financial inclusion show that the level of human development and that of financial inclusion are positively correlated, barring a few exceptions.

Some of the important factors determining the level of financial inclusion in a country are per capita GDP, income inequality, adult literacy and urbanisation. Further, physical and electronic connectivity and information availability such as telephone and internet usage also play positive role in enhancing financial inclusion.

The estimated values of a Financial Inclusion Index, by Mehrotra *et al* (2009) at the state and district levels for India, indicate that there has been a relative improvement in the status of financial inclusion between 2002 and 2006 with the number of districts in the lowest grade declining from 378 to 330.

The empirical findings strengthen the argument that financial exclusion is indeed a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanisation and poor connectivity appear to be less financially inclusive. Financial inclusion, therefore, assumes importance as a policy objective.

References:

- Chakrabarty, K. C. (2010), "Inclusive Growth – Role of Financial Sector", Speech at the National Finance Conclave 2010.
- Ianchovichina, E. and S. Lundstrom (2009), "Inclusive Growth Analytics: Framework and Application", *World Bank Policy Research Working Paper* No. 4851.
- Mehrotra, N, V. Puhazhendhi, G.G. Nair, and B.B. Sahoo (2009), "Financial Inclusion – An Overview", *NABARD Occasional Paper* No. 48.

Instruments used for strengthening delivery of services and assessment of their effectiveness

IV.21 Financial inclusion can be seen as a viable business proposition for banks, especially so if the delivery models aim at generating revenue rather than being cost centric such that customers get quality banking services at their door step while simultaneously creating business opportunities for the banks.

IV.22 It is feasible only if delivery of services, at the minimum, includes four products: (i) a savings cum overdraft account, (ii) a remittance product for electronic benefits transfer and other remittances, (iii) a pure savings product ideally a recurring deposit scheme, and (iv) entrepreneurial credit in the form of General-purpose Credit Card (GCC) or Kisan Credit Card (KCC).

IV.23 Reserve Bank is furthering financial inclusion with high priority through a combination of strategies ranging from relaxation of regulatory guidelines, provision of new products and other supportive measures to achieve sustainable and scalable financial inclusion as outlined below.

A. Provision of new products

- i) As of March 2011, 74.4 million No Frill accounts have been opened by domestic commercial banks with outstanding balance of ₹6,566 crore. Basic banking No Frill accounts have nil or very low minimum balances as well as charges that make such accounts accessible to vast sections of the population.
- ii) With a view to encourage transactions in No Frill accounts banks have been advised to provide small overdrafts (ODs) in such accounts. Up to end March 2011, banks have provided 4.2 million ODs amounting to ₹199 crore.
- iii) Banks had been asked to consider introduction of a GCC facility up to ₹25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence

on security, purpose or end-use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. As of March 2011, banks had 0.95 million GCC accounts with outstanding credit of ₹1,308 crore.

- iv) Banks have been advised to speed up opening of accounts, leveraging ICT to provide benefits to their customers at their door step. As on March 2011, banks had opened 37.2 million accounts using ICT through BCs.

B. Regulatory measures

- i) KYC requirements for opening bank accounts have been further relaxed during the year, to include job card issued by MGNREGA duly signed by an officer of the State Government or the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.
- ii) *Simplified branch authorisation*: To address the issue of uneven spread of bank branches, domestic SCBs are permitted, since December 2009, to freely open branches in Tier 3 to Tier 6 centres with population of less than 50,000 under general permission, subject to reporting. In the north eastern states and Sikkim, domestic SCBs can now open branches in rural, semi urban and urban centres without taking prior permission from the Reserve Bank, subject to reporting.
- iii) *Engaging Business Correspondents*: During 2010-11, 'for-profit' companies were also allowed to be engaged as BC - intermediaries for providing financial and banking services, as facilitators for banks. As at end-March, 2011, domestic commercial banks have reported deploying 58,361 BCs/ customer service providers (CSPs), providing banking services in 76,801 villages.
- iv) *Opening of branches in unbanked rural centres*: So as to improve banking penetration and financial inclusion rapidly in the rural areas, the need for opening more brick and mortar branches, besides using BCs, was felt.

Accordingly, banks were mandated in the Annual Policy Statement of May 2011 to allocate at least 25 per cent of the total number of branches to be opened during a year to unbanked rural centres.

C. Supportive measures

- i) Two Funds, namely the Financial Inclusion Fund (FIF) for meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and the Financial Inclusion Technology Fund (FITF), to meet the cost of technology adoption has been set up at NABARD with an overall corpus of ₹500 crore each. In the Union Budget for 2011-12 the corpus of these funds was enhanced by ₹100 crore each.
- ii) To improve banking penetration in the North-East, the Reserve Bank has offered to fund the capital and running costs for five years, provided the State Government concerned is willing to make available the premises and put in place appropriate security arrangements. During the year, branches were opened at 2 of the agreed centres in Meghalaya, 2 in Tripura and 4 in Manipur.
- iii) With an objective of ensuring uniform progress in provision of banking services in all parts of the country, banks were advised to draw up a roadmap to provide banking services through a banking outlet in every unbanked village having a population of over 2,000 by March 2012. The Reserve Bank advised banks that such banking services need not necessarily be extended through a brick and mortar branch but could be provided also through any of the various forms of ICT- based models, including BCs. About 72,800 such unbanked villages have been identified and allotted to various banks through State Level Bankers Committees (SLBCs).

Progress of Financial Inclusion Plans during the year

IV.24 In January 2010, all public and private sector banks were advised to put in place a Board approved

three-year FIP and submit the same to the Reserve Bank by March 2010. Accordingly, the banks have submitted their FIPs containing targets for March 2011, 2012 and 2013.

IV.25 These plans broadly include self-set targets with respect to opening of rural brick and mortar branches; employment of BCs; coverage of unbanked villages with population above 2,000 as also other unbanked villages with population below 2,000 through branches/BCs/other modes; opening of No Frill accounts including those opened through BC-ICT; issuance of KCC, GCC and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate Board approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff.

IV.26 In order to review the progress of banks in the implementation of FIPs and making way for accelerated progress in future, the Reserve Bank has been conducting Annual FIP Review Meetings with banks. A few important action points from the discussions held during May-June 2011 are as follows:

- i) Banks would review their delivery models so that financial inclusion results in a profitable business for them.
- ii) Banks will also focus on providing banking services in peripheral villages with population of less than 2,000.
- iii) In future, banks would focus more on opening of brick and mortar branches in unbanked villages. It may be a low cost intermediary kiosk with a simple structure, requiring minimum infrastructure for operating small customer transactions and supporting up to 8-10 BCs at a reasonable distance of 2-3 Kms.
- iv) Banks would expand financial inclusion initiatives in urban and semi-urban areas by targeting pockets of migrant workers and small vendors, leveraging Aadhaar enrollment for opening banks accounts.
- v) PSBs shall formulate FIPs for all RRBs sponsored by them and develop an effective

monitoring mechanism so that targets assigned to the RRBs are achieved meticulously.

Financial literacy efforts including outreach activities

IV.27 Financial literacy facilitates financial inclusion, which in turn results in inclusive growth and development. In countries with diverse social and economic profiles as in India, financial education is particularly relevant for people who are resource poor, operate at the margin and are vulnerable to persistent downward financial pressures.

IV.28 Financial education can broadly be defined as the capacity to have a familiarity with and also an understanding of financial market products, especially risks and rewards to make informed choices. The Reserve Bank has taken a number of measures for increasing financial literacy.

- i) RBI has undertaken a project titled 'Project Financial Literacy' with the objective of disseminating information regarding the central bank and general banking concepts to various target groups including school and college going children, women, rural and urban poor, defence personnel and senior citizens.
- ii) A multilingual website in 13 Indian languages on all matters concerning banking and the common person was launched by the Reserve Bank in June, 2007.
- iii) With a view to introducing banking to school children, illustrated books have been made available on the website. Similar books have been prepared for the different target groups and are widely distributed in regional languages through various Regional Offices of the Reserve Bank.
- iv) Financial literacy programmes are being launched in each state with the active involvement of the State Government and the SLBC. These programmes include skits, road shows, exhibitions, workshops, seminars, and dissemination through radio and television.

IV.29 A model scheme on financial literacy and credit counselling centres (FLCCs) was formulated by the Reserve Bank and communicated to all SCBs and RRBs with the advice to set up the centres as distinct entities, such that the FLCCs' services are available even to other banks' customers in the district.

IV.30 Financial education stresses on the capacity building measures to enable small and marginal borrowers to avail of the entire suite of financial products and services *i.e.*, savings, remittance, insurance and pension from the banking sector, in addition to credit. In view of the utility of these centres as expressed by state governments and other stakeholders, banks have been advised to set up FLCCs in all districts. As on March 2011, 252 FLCCs were set up in various states of the country.

IV.31 During 2010-11, the Reserve Bank organised the second Frontline Managers' Conferences on financial inclusion to review the progress made in furthering financial inclusion, understand the problems impeding financial inclusion at the ground level from demand and delivery perspective and get a feel of the ground realities on the current status of our financial inclusion efforts. Grassroot level functionaries of banks, MFIs, BCs, technology providers and representative customers of financial services from across the country participated in the conference.

IV.32 In the wake of the Andhra Pradesh micro finance crisis in 2010, concerns were expressed by various stakeholders and the need was felt to review regulation of NBFCs which function as MFIs. As indicated in the Second Quarter Review of November 2010, a Sub-Committee of the Central Board of the Reserve Bank (Chairman: Shri Y. H. Malegam) was constituted to study issues and concerns in the MFI sector (Box IV.2).

OUTREACH ACTIVITIES

IV.33 Cognizant of the beneficial impact of outreach activities, these flagship events were carefully orchestrated to ensure financial inclusion,

Box IV.2 Committee on the MFI Sector (Malegam Committee)

The Malegam Committee in its January 2011 report, *inter alia*, recommended (i) creation of a separate category of NBFC-MFIs; (ii) a margin cap and an interest rate cap on individual loans; (iii) transparency in interest charges; (iv) lending by not more than two MFIs to any individual borrower; (v) creation of one or more credit information bureaus; (vi) establishment of a proper system of grievance redressal procedure by MFIs; (vii) creation of one or more “social capital funds”; and (viii) continuation of categorisation of bank loans to MFIs, complying with the regulation laid down for NBFC-MFIs, under the priority sector.

Based on the feedback received, the broad regulation framework recommended by the Committee have been accepted. The SCBs have accordingly been advised in May, 2011 that bank credit to MFIs extended on or after April 1, 2011 for onward-lending to individuals and also to members of self help groups (SHGs)/joint liability groups (JLGs) would be eligible for categorisation as priority sector advance under respective categories *viz.*, agriculture, MSE, and micro credit (for other purposes), as indirect finance, provided not less than 85 per cent of total assets of MFI (other than cash, balances with banks and financial institutions, Government securities and money market instruments) are in the nature of “qualifying assets”.

In addition, aggregate amount of loan, extended for income generating activity, is not less than 75 per cent of the total loans given by MFIs.

- A “qualifying asset” shall mean a loan disbursed by MFI, which *inter alia* satisfies criteria such as (i) the borrower’s household annual income does not exceed ₹60,000 in rural areas and ₹1,20,000 in non-rural areas; (ii) loan does not exceed ₹35,000 in the first cycle and ₹50,000 in the subsequent cycles; (iii) total indebtedness of the borrower does not exceed ₹50,000; (iv) the loan is without collateral; (v) loan is repayable by weekly, fortnightly or monthly installments as per borrower’s choice
- Further, banks have to ensure that MFIs comply with the stipulated caps on margin and interest rate as also

other pricing guidelines, to be eligible to classify these loans as priority sector loans:

- i) Margin cap at 12 per cent for all MFIs. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets.
 - ii) Interest cap on individual loans at 26 per cent per annum for all MFIs to be calculated on a reducing balance basis.
 - iii) Only three components are to be included in pricing of loans *viz.*, (a) a processing fee not exceeding 1 per cent of the gross loan amount, (b) the interest charge and (c) the insurance premium.
 - iv) The processing fee is not to be included in the margin cap or the interest cap of 26 per cent.
 - v) Only the actual cost of insurance *i.e.*, actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges to be recovered as per IRDA guidelines.
 - vi) No penalty for delayed payment.
 - vii) No security deposit/ margin to be taken.
- The banks should obtain from MFIs, at the end of each quarter, a Chartered Accountant’s Certificate stating, *inter alia*, that (i) 85 per cent of total assets of the MFI are in the nature of “qualifying assets”, (ii) the aggregate amount of loan, extended for income generation activity, is not less than 75 per cent of the total loans given by the MFIs, and (iii) pricing guidelines are followed.
 - Bank loans to MFIs, which do not comply with above conditions and bank loans to other NBFCs, will not be reckoned as priority sector loans *w.e.f.* April 1, 2011. The bank loans extended prior to April 1, 2011 classified under priority sector will continue to be reckoned under priority sector till maturity of such loans.

emphasising focus on financial education and literacy initiatives across the country during the year. A total of 214 villages, including 167 villages identified in the preceding Platinum Jubilee year of the Reserve Bank, were taken up for being transformed into ‘Model Villages’.

IV.34 During the outreach programmes of grassroot level sensitisation, various events such as lectures, demonstrations, exhibitions and skits were organised to educate people about the role played by the Reserve Bank in their daily life. The outreach events

received all round acclaim from the public, Government officials and banks and attracted the interest of electronic and print media in the country. The participation of the top executives of the Bank (in 34 outreach programmes in 2010-11) along with other dignitaries from banks, NABARD and State Government agencies generated new hopes among the public in rural areas as evident from their whole-hearted involvement in these programmes. The Reserve Bank endeavours to ensure sustained post-event momentum so that long-term objectives of financial inclusion are attained.