

RBI Monetary Policy Statement 2011-12: Sa-Dhan Efforts resulted in Positive Changes in the Malegam Committee Recommendations

The RBI Monetary Policy Statement was made public today by the Governor, RBI. Malegam Committee recommendations have been broadly accepted by the RBI. We are happy to share with you that through our intensive engagement with the Committee and the RBI, several of our recommendations have been accepted by the RBI and are included in the policy statement.

To develop the response on the original draft of the Malegam Committee Report. Sa-Dhan undertook an intensive consultative process with the board, Task Forces and diversity of its membership in terms of legal forms, operating models, size, region etc. This resulted in concrete set of recommendations to the Malegam Committee. Further, it had a series of meetings with the RBI on these.

As a result, changes have been done on the original recommendations of the Malegam Committee as reflected in the policy statement pertaining to interest rate, margin, limit of annual income of household, tenure of loan and maximum loan amount to borrower in rural and urban areas.

COMPARSION BETWEEN MALEGAM COMMITTEE RECOMMENDATIONS, SA-DHAN RECOMMENDATIONS & RBI GUIDELINES

	Malegam Committee Recommendations	Sa-Dhan's recommendation to RBI	RBI Guidelines as stated in Monetary Policy Statement
Qualifying Assets	The loan is given to a borrower who is a member of a household whose annual income does not exceed Rs. 50,000;	Household income limit of Rs. 50,000: Please increase these limits or do away completely It is recommended to do away with the blanket limit as it has not considered the rural-urban divide, inflation, occupational pattern, seasonal cash flow and economic graduation etc. It would	Loans disbursed by an MFI to a borrower with a rural household annual income not exceeding Rs.60,000 or urban and semiurban household income not Exceeding Rs.1,20,000

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		exclude the economically active poor, poor in urban set up and also limit the scope for repeat loans for borrowers graduating to above poverty lines. While we would like the cap to be entirely lifted, we are open to have Rs. 75,000 for Rural & Rs. 100,000 for Urban poor and these amounts can be indexed to inflation	
	The amount of the loan does not exceed Rs. 25,000 and the total outstanding indebtedness of the borrower including this loan also does not exceed Rs. 25,000	Maximum Loan amount of Rs. 25,000: Status quo of the existing RBI guideline be maintained (clause 5.9 b2) Maximum loan size of RS 25000 is not sufficient for enterprise start-ups, income generating activities, micro-housing loan etc. Poor people to meet such need would look out for exploitative moneylenders. Instead, loan amounts should be linked to individual appraisals with a separate criteria for SHG/JLG. The existing RBI guideline of Rs. 50,000 be maintained and be linked to an inflation index	Loan amount not to exceed Rs.35,000 in the first cycle and Rs.50,000 in subsequent cycles. Total indebtedness of the borrower not to exceed Rs.50,000
Pricing of Interest	There should be a "margin cap" of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs. 100 Cr. And a "margin cap" of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of	Caps on margins & interest rates: Provisioning for Loan loss should be made flexible and kept outside of the margins recommended. Cap on borrowing from banks should be ensured (clause 7.11)	Banks should ensure a margin cap of 12 per cent and an interest rate cap of 26 per cent for their lending to be eligible to be classified as priority sector loans

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	<p>an amount not exceeding Rs. 100 Cr. There should also be a cap of 24% on individual loans.</p>	<p>The margin cap and interest cap, in the absence of similar caps on bank loan rates would be very difficult for small, medium and localised institutions. Crisis like Kolar or Andhra Pradesh would make it hard for the MFIs to comply with such margins and prescriptions for loan loss provision.</p> <p>We recommend 3 Caps on the margins: Those above 100 Crs, it is 12% 10 crs to 100 crs, it is 14% Less than 10cr, it is 16%</p> <p>Interest rate sealing on individual loan may be raised to 26% for institutions below 100 cr and may be retained at 24% for institutions above 100 cr asset size.</p>	

Excerpt from RBI Monetary Policy Statement 2011-12

Malegam Committee Recommendations

92. In the wake of the Andhra Pradesh micro finance crisis in 2010, concerns were expressed by various stakeholders and the need was felt for more rigorous regulation of non-banking financial companies (NBFCs) functioning as micro finance institutions (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. The Committee submitted its report in January 2011, which was placed in public domain. The Committee, *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 individual borrowers; (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. The recommendations of the Committee were discussed with all stakeholders, including the Government of India, select State Governments, major NBFCs working as MFIs, industry associations of MFIs working in the country, other smaller MFIs, and major banks. In the light of the feedback received, it has been decided:

- to accept the broad framework of regulations recommended by the Committee;
- that bank loans to all MFIs, including NBFCs working as MFIs on or after April 1, 2011, will be eligible for classification as priority sector loans under respective category of indirect finance only if the prescribed percentage of their total assets are in the nature of "qualifying assets" and they adhere to the "pricing of interest" guidelines to be issued in this regard;
- that a "qualifying asset" is required to satisfy the criteria of (i) loan disbursed by an MFI to a borrower with a rural household annual income not exceeding ₹ 60,000 or urban and semi-urban household income not exceeding ₹ 1,20,000; (ii) loan amount not to exceed ₹ 35,000 in the first cycle and ₹ 50,000 in subsequent cycles; (iii) total indebtedness of the borrower not to exceed ₹ 50,000; (iv) tenure of loan not to be less than 24 months for loan amount in excess of ₹ 15,000 without prepayment penalty; (v) loan to be extended without collateral; (vi) aggregate amount of loan, given for income generation, not to be less than 75 per cent of the total loans given by the MFIs; and (vii) loan to be repayable by weekly, fortnightly or monthly instalments at the choice of the borrower;
- that banks should ensure a margin cap of 12 per cent and an interest rate cap of 26 per cent for their lending to be eligible to be classified as priority sector loans;
- that loans by MFIs can also be extended to individuals outside the self-help group (SHG)/joint liability group (JLG) mechanism; and
- that bank loans to other NBFCs would not be reckoned as priority sector loans with effect from April 1, 2011.

93. Detailed guidelines in this regard will be issued separately.

Redefining the Priority Sector

94. The Malegam Committee recommended that the existing guidelines on bank lending to the priority sector be revisited. Requests were also received from various quarters in the recent past to relook at the definition of the priority sector, especially when bank finance was being routed through other agencies. It is, therefore, proposed:

- **to appoint a committee to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification.**

Financial Inclusion Plan for Banks

95. As indicated in the Second Quarter Review of November 2010, all public and private sector banks were advised to put in place a Board approved three-year financial inclusion plans (FIPs) and submit them to the Reserve Bank by March 2010. These banks have since prepared and submitted their FIPs containing targets for March 2011, 2012 and 2013, to the Reserve Bank. These plans broadly include self-set targets in respect of rural brick and mortar branches opened; business correspondents (BCs) employed; coverage of unbanked villages with population above 2,000 as also other unbanked villages with population below 2,000 through branches/BCs/other modes; no-frill accounts opened including

through BC-ICT; kisan credit cards (KCCs) and general credit cards (GCCs) issued; and other specific products designed by them to cater to the financially excluded segments.

96. The implementation of these plans is being closely monitored by the Reserve Bank on a quarterly basis. The analysis of progress reports of above plans received from all public and private sector banks shows that during the period April 2010 to March 2011, banks opened 5,214 new branches, deployed 25,403 BCs/customer service providers (CSPs) and provided banking services in 43,337 villages. Out of these, 525 villages were covered through rural brick and mortar branches, 42,506 villages through BCs and 306 villages through other modes such as ATMs and mobile vans. It is important to note that banks covered 24,066 villages with population above 2,000, in addition to covering 19,271 villages with population below 2,000.