भारतीय रिज़र्व बैंक

---------------------------------- **RESERVE BANK OF INDIA** ------------------------------------

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RBI/2017-18/14
FIDD.CO.SFB. No.9/04.09.001/2017-18 July 6, 2017

The Chairman/ Managing Director/
Chief Executive Officer
Small Finance Banks

Dear Sir/Madam,

Small Finance Banks – Compendium of Guidelines on Financial Inclusion and Development

In view of the announcement made in the budget 2014-15 regarding creation of a framework for licensing small banks, and to give a thrust to the supply of credit to micro and small enterprises, agriculture and banking services in unbanked and under-banked regions in the country, Reserve Bank decided to licence new “Small Finance Banks (SFBs)” in the private sector. Following a due process, in-principle approvals were given to ten applicants to set up SFBs vide press release dated September 16, 2015.

2. Subsequently, Operating Guidelines for Small Finance Banks were issued vide Circular DBR.NBD.No.26/16.13.218/2016-17 dated October 6, 2016, which prescribed, inter alia, broad indicative guidelines in areas related to Financial Inclusion and Development. In continuation with the same, comprehensive set of guidelines in the form of a compendium is **Annexed**. The guidelines are operational with effect from the date of this compendium.

Yours faithfully,

(Uma Shankar)
Chief General Manager-In-Charge

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Compendium of Guidelines for Small Finance Banks – Financial Inclusion and Development

RESERVE BANK OF INDIA

FINANCIAL INCLUSION AND DEVELOPMENT DEPARTMENT

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CHAPTER I: PRELIMINARY

Objective of a small finance bank

The objective of setting up of small finance banks is to further financial inclusion by,

a) provision of savings vehicle and primarily to unserved and underserved sections of the population and,
b) supply of credit to small business units, small & marginal farmers; micro and small industries and other unorganised sector entities through high technology & low cost operations

Scope of activities

- The scope of activities of a small finance bank would primarily be to undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganized sector entities.
- SFBs are required to open at least 25% of its branches in unbanked rural centres.
- Further, these banks are required to extend 75% of its ANBC to priority sector.

Guidelines for SFBs on Financial Inclusion and Development

- Considering the differentiated nature of business and financial focus of the SFBs and taking into account the important role that SFBs can play in the supply of credit to micro and small enterprises, agriculture and banking services the need for a specific compendium of guidelines for SFBs on areas relating to Financial Inclusion and Development have been prepared.
- The provisions of these instructions shall apply to every Small Finance Bank licensed to operate in India by the Reserve Bank of India.

CHAPTER II: PRIORITY SECTOR LENDING – TARGETS AND CLASSIFICATION

SECTION – I Categories Under Priority Sector

1. The categories under priority sector are as follows:
   i. Agriculture
   ii. Micro, Small and Medium Enterprises (MSMEs)
   iii. Export Credit
   iv. Education
   v. Housing
   vi. Social Infrastructure
   vii. Renewable Energy
   viii. Others

The details of eligible activities under the above categories are specified in Section III.

SECTION – II. Targets /Sub-Targets For Priority Sector

Small Finance Banks will have a target of 75 per cent for priority sector lending of their Adjusted Net Bank Credit (ANBC). While 40 per cent of ANBC should be allocated to different sub-sectors under PSL as mentioned below, the balance 35 per cent can be allocated to any one or more sub-sectors under the PSL, where the banks have competitive advantage.

Categories	Target
Total Priority Sector	75 percent of ANBC
Agriculture	18 percent of ANBC
Small and Marginal Farmers	Within the 18 percent target for Agriculture, a target of 8 percent of ANBC is prescribed for Small and Marginal Farmers.
Micro Enterprises	7.5 percent of ANBC
Advances to Weaker Sections	10 percent of ANBC

The computation of priority sector targets/sub-targets achievement will be based on the total ANBC as on the corresponding date of the preceding year.

For the purpose of priority sector lending, ANBC denotes the outstanding Bank Credit in India [As prescribed in item No.VI of Form 'A' under Section 42 (2) of the RBI Act, 1934] **minus** bills rediscounted with RBI and other approved Financial Institutions **plus** permitted non-SLR bonds/debentures under Held to Maturity (HTM) category plus other investments eligible to be treated as part of priority sector lending (e.g. investments in securitized assets). The outstanding deposits under RIDF and other funds with NABARD, NHB, SIDBI and MUDRA Ltd. in lieu of non-achievement of priority sector lending targets/sub-targets will form part of ANBC. Advances extended in India against the incremental FCNR (B)/NRE deposits, qualifying for exemption from CRR/SLR requirements, as per the Reserve Bank's circulars DBOD.No.Ret.BC.36/12.01.001/2013-14 dated August 14, 2013 read with DBOD.No.Ret.BC.93/12.01.001/2013-14 dated January 31, 2014 and DBOD mailbox clarification issued on February 6, 2014 will be **excluded** from the ANBC for computation of priority sector lending targets, till their repayment. The eligible amount for exemption on account of issuance of long-term bonds for infrastructure and affordable housing as per Reserve Bank's circular DBOD.BP.BC.No.25/08.12.014/2014-15 dated July 15, 2014 will also be **excluded** from the ANBC for computation of priority sector lending targets.

Computation of Adjusted Net Bank Credit:

Bank Credit in India [As prescribed in item No.VI of Form 'A' under Section 42 (2) of the RBI Act, 1934]	I
Bills Rediscounted with RBI and other approved Financial Institutions	II
Net Bank Credit (NBC)*	III (I-II)
Bonds / debentures in non-SLR categories under HTM category + other investments eligible to be treated as priority sector + Outstanding Deposits under RIDF and other eligible funds with NABARD, NHB, SIDBI and MUDRA Ltd. on account of priority sector shortfall + outstanding PSLCs	IV
Eligible amount for exemptions on issuance of long-term bonds for infrastructure and affordable housing as per circular DBOD.BP.BC.No.25/05.12.014/2014-15 dated July 15, 2014	V
Eligible advances extended in India against the incremental FCNR (B) / NRE deposits, qualifying for exemption from CRR/SLR requirements	VI
ANBC	**III+IV-V-VI**

*For the purpose of priority sector computation only, Banks should not deduct / net any amount like provisions, accrued interest, etc. from NBC.

Banks may be further guided by Para 6.5 (ii to vii) of the Operating Guidelines for Small Finance Banks issued by Department of Banking Regulation (RBI/2016-17/81 DBR.NBD.No.26/16.13.218/2016-17 dated October 06, 2016) for computation of ANBC.

In case banks are subtracting prudential write off at Corporate / Head Office level while reporting Bank Credit as above, it must be ensured that bank credit to priority sector and all other sub-sectors so written off should also be subtracted category wise from priority sector and sub-sector achievement.

All types of loans, investments or any other items which are treated as eligible for classification under priority sector target / sub-target achievement should also form part of Adjusted Net Bank Credit.

SECTION – III. Description Of Eligible Categories Under Priority Sector

1. Agriculture

The lending to agriculture sector will be categorized as (i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) Agriculture Infrastructure and (iii) Ancillary Activities. A list of eligible activities under the three sub-categories is indicated below:

1.1 Farm credit	A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans], directly engaged in Agriculture and Allied Activities, *viz.,* dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include: (i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities. (ii) Medium and long-term loans to farmers for agriculture and allied activities (*e.g.* purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.) (iii) Loans to farmers for pre and post-harvest activities, *viz*.,

	spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce. (iv) Loans to farmers up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months. (v) Loans to distressed farmers indebted to non-institutional lenders. (vi) Loans to farmers under Kisan Credit Card Scheme. (vii) Loans to small and marginal farmers for purchase of land for agricultural purposes. B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, *viz*., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of ₹2 crore per borrower. This will include: (i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities. (ii) Medium and long-term loans to farmers for agriculture and allied activities (*e.g*. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.) (iii) Loans to farmers for pre and post-harvest activities, *viz*., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce. (iv) Loans up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.
1.2. Agriculture infrastructure	i) Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage units/ cold storage chains designed to store agriculture produce/products, irrespective of their location. ii) Soil conservation and watershed development.

	iii) Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting. For the above loans, an aggregate sanctioned limit of ₹100 crore per borrower from the banking system, will apply.
1.3.Ancillary activities	(i) Loans up to ₹5 crore to co-operative societies of farmers for disposing of the produce of members. (ii) Loans for setting up of Agriclinics and Agribusiness Centres. (iii) Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system. (iv) Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis. (v) Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.

For the purpose of computation of 8 percent target, Small and Marginal Farmers will include following:-

- Farmers with landholding of up to 1 hectare are considered as Marginal Farmers. Farmers with a landholding of more than 1 hectares and up to 2 hectares are considered as Small Farmers.
- Landless agricultural laborers, tenant farmers, oral lessees and share-croppers, whose share of landholding is within the limits prescribed for small and marginal farmers.
- Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual Small and Marginal farmers directly engaged in Agriculture and Allied Activities provided banks maintain disaggregated data of such loans.
- Loans to farmers' producer companies of individual farmers, and co-operatives of farmers directly engaged in Agriculture and Allied Activities, where the membership of Small and Marginal Farmers is not less than 75 per cent by number and whose land-holding share is also not less than 75 per cent of the total land-holding.

2. Micro, Small and Medium Enterprises (MSMEs)

2.1. The limits for investment in plant and machinery/equipment for manufacturing / service enterprise, as notified by Ministry of Micro, Small and Medium Enterprises, vide S.O.1642(E) dated September 9, 2006 are as under:-

Manufacturing Sector	
Enterprises	**Investment in plant and machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	**Investment in equipment**
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Bank loans to Micro, Small and Medium Enterprises, for both manufacturing and service sectors are eligible to be classified under the priority sector as per the following norms:

2.2. Manufacturing Enterprises

The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The Manufacturing Enterprises are defined in terms of investment in plant and machinery.

2.3. Service Enterprises

Bank loans up to ₹5 crore per unit to Micro and Small Enterprises and ₹10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006.

2.4. Factoring Transactions

Factoring transactions on 'with recourse' basis by banks which carry out the business of factoring departmentally, wherever the 'assignor' is a Micro, Small or Medium Enterprise, subject to the corresponding limits for investment in plant and machinery/ equipment and other extant guidelines for priority sector classification. Such outstanding factoring portfolios may be classified by banks under MSME category on the reporting dates.

In terms of paragraph 9 of the Department of Banking Regulation Circular DBR. No. FSD.BC.32/24.01.007/2015-16 dated July 30, 2015 on ‘Provision of Factoring Services by Banks- Review’, inter-alia, the borrower’s bank shall obtain from the borrower, periodical certificates regarding factored receivables to avoid double financing/ counting. Further, the ‘factors’ must intimate the limits sanctioned to the borrower and details of debts factored to the banks concerned, taking responsibility to avoid double financing.

Factoring transactions taking place through the Trade Receivables Discounting System (TReDS) shall also be eligible for classification under priority sector.

2.5. Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 per cent prescribed for Micro Enterprise under priority sector.

2.6. Other Finance to MSMEs

I. Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.
II. Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.
III. Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver’s Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).
IV. Overdrafts extended by banks after April 8, 2015 upto ₹ 5000/- under Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts provided the borrower’s household annual income does not exceed ₹ 100,000/- for rural areas and ₹ 160,000/- for non-rural areas. These overdrafts will qualify as achievement of the target for lending to Micro Enterprises.
V. Outstanding deposits with SIDBI and MUDRA Ltd. on account of priority sector shortfall.

2.7. To ensure that MSMEs do not remain small and medium units merely to remain eligible for priority sector status, the MSME units will continue to enjoy the priority sector lending status up to three years after they grow out of the MSME category concerned.

3. Export Credit

During the first financial year of operation, Export Credit subject to a limit of up to ₹ 25 crore per borrower to units having turnover of up to ₹ 100 crore will be classified as priority sector. However, for subsequent financial years only incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC shall be treated as priority sector.

Export credit includes pre-shipment and post-shipment export credit (excluding off-balance sheet items) as defined in Master Circular on Rupee/Foreign Export Credit and Customer Service to Exporters issued by our Department of Banking Regulation.

4. Education

Loans to individuals for educational purposes including vocational courses upto ₹10 lakh irrespective of the sanctioned amount will be considered as eligible for priority sector.

5. Housing

i. Loans to individuals up to ₹28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to ₹ 20 lakh in other centres for purchase / construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed ₹ 35 lakh and ₹ 25 lakh, respectively. The housing loans to banks' own employees will be excluded. As housing loans which are backed by long term bonds are exempted from ANBC, banks should either include such housing loans to individuals up to ₹ 28 lakh in metropolitan centres and ₹ 20 lakh in other centres under priority sector or take benefit of exemption from ANBC, but not both.

ii. Loans for repairs to damaged dwelling units of families up to ₹ 5 lakh in metropolitan centres and up to ₹ 2 lakh in other centres.

iii. Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of ₹10 lakh per dwelling unit.

iv. The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for economically weaker sections and low income groups, the total cost of which does not exceed ₹10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of ₹2 lakh per annum, irrespective of the location, is prescribed.

v. Outstanding deposits with NHB on account of priority sector shortfall.

6. Social Infrastructure

Bank loans up to a limit of ₹5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities, sanitation facilities, construction/refurbishment of household toilets and household water quality improvements in Tier II to Tier VI centres.

7. Renewable Energy

Bank loans up to a limit of ₹15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification. For individual households, the loan limit will be ₹10 lakh per borrower.

8. Others

8.1. Loans not exceeding ₹50,000/- per borrower provided directly by banks to individuals and their SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed ₹100,000/- and for non-rural areas it does not exceed ₹1,60,000/-.

8.2. Loans to distressed persons [other than farmers already included under III (1.1) A (v)] not exceeding ₹100,000/- per borrower to prepay their debt to non-institutional lenders.

8.3 Loans sanctioned to State Sponsored Organizations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organizations.

SECTION – IV. Weaker Sections

9. Priority sector loans to the following borrowers will be considered under Weaker Sections category:-

No.	Category
(i)	Small and Marginal Farmers
(ii)	Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh
(iii)	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
(iv)	Scheduled Castes and Scheduled Tribes
(v)	Beneficiaries of Differential Rate of Interest (DRI) scheme
(vi)	Self Help Groups
(vii)	Distressed farmers indebted to non-institutional lenders
(viii)	Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders
(ix)	Individual women beneficiaries up to ₹1 lakh per borrower
(x)	Persons with disabilities
(xi)	Overdrafts upto₹5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed ₹100,000/- for rural areas and ₹1,60,000/- for non-rural areas
(xii)	Minority communities as may be notified by Government of India from time to time

In States, where one of the minority communities notified is, in fact, in majority, item (xii) will cover only the other notified minorities. These States/ Union Territories are Jammu & Kashmir, Punjab, Meghalaya, Mizoram, Nagaland and Lakshadweep.

SECTION V. Miscellaneous

10. Investments by banks in securitised assets

(i) Investments by banks in securitised assets, representing loans to various categories of priority sector, except 'others' category, subject to terms and conditions specified in Para 1.9 of the Operating Guidelines for Small Finance Banks issued by Department of Banking

Regulation (RBI/2016-17/81 DBR.NBD.No.26/16.13.218/2016-17 dated October 06, 2016) are eligible for classification under respective categories of priority sector depending on the underlying assets provided:

- The securitized assets are originated by banks and financial institutions and are eligible to be classified as priority sector advances prior to securitization and fulfil the Reserve Bank of India guidelines on securitization.
- The all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the MCLR of the investing small finance bank plus 8 percent per annum.
- The investments in securitized assets originated by MFIs, which comply with the guidelines in Paragraph 19 of the Master Direction-Priority Sector Lending-RBI/FIDD/2016-17/33 FIDD.CO.Plan.1/04.09.01/2016-17 dated July 07, 2016 are exempted from this interest cap as there are separate caps on margin and interest rate.

(ii) Investments made by banks in securitised assets originated by NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

11. Transfer of Assets through Direct Assignment /Outright purchases

(i) Assignments/Outright purchases of pool of assets by banks representing loans under various categories of priority sector, except the 'others' category, subject to terms and conditions specified in Para 1.9 of the Operating Guidelines for Small Finance Banks issued by Department of Banking Regulation (RBI/2016-17/81 DBR.NBD.No.26/16.13.218/2016-17 dated October 06, 2016) will be eligible for classification under respective categories of priority sector provided:

- The assets are originated by banks and financial institutions which are eligible to be classified as priority sector advances prior to the purchase and fulfil the Reserve Bank of India guidelines on outright purchase/assignment.
- The eligible loan assets so purchased should not be disposed of other than by way of repayment.
- The all-inclusive interest charged to the ultimate borrower by the originating entity should not exceed the MCLR of the purchasing small finance bank plus 8 percent per annum.

The Assignments/Outright purchases of eligible priority sector loans from MFIs, which comply with the guidelines in Paragraph 19 of the Master Direction-Priority Sector Lending-RBI/FIDD/2016-17/33 FIDD.CO.Plan.1/04.09.01/2016-17 dated July 07, 2016 are exempted from this interest rate cap as there are separate caps on margin and interest rate.

(ii) When the banks undertake outright purchase of loan assets from banks/ financial institutions to be classified under priority sector, they must report the nominal amount actually disbursed to end priority sector borrowers and not the premium embedded amount paid to the sellers.

(iii) Purchase/ assignment/investment transactions undertaken by banks with NBFCs, where the underlying assets are loans against gold jewellery, are not eligible for priority sector status.

12. Inter Bank Participation Certificates

Inter Bank Participation Certificates (IBPCs) bought by banks, on a risk sharing basis, are eligible for classification under respective categories of priority sector, provided the underlying assets are eligible to be categorized under the respective categories of priority sector and the banks fulfil the Reserve Bank of India guidelines on IBPCs and terms & conditions specified in Para 1.9 of the Operating Guidelines for Small Finance Banks issued by Department of Banking Regulation (RBI/2016-17/81 DBR.NBD.No.26/16.13.218/2016-17 dated October 06, 2016) on Credit risk transfer and portfolio sales/purchases.

With regard to the underlying assets of the IBPC transactions being eligible for categorization under 'Export Credit' as per Para 3, the IBPC bought by banks, on a risk sharing basis, may be classified from purchasing bank's perspective for priority sector categorization. However, in such a scenario, the issuing bank shall certify that the underlying asset is 'Export Credit', in addition to the due diligence required to be undertaken by the issuing and the purchasing bank as per the guidelines in this regard.

13. Priority Sector Lending Certificates

The outstanding priority sector lending certificates bought by banks will be eligible for classification under respective categories of priority sector provided the assets are originated by banks, are eligible to be classified as priority sector advances and fulfil the Reserve Bank of India guidelines on Priority Sector Lending Certificates issued vide Circular

FIDD.CO.Plan.BC.23/04.09.001/2015-16 dated April 7, 2016 and terms & conditions specified in Para 1.9 of the Operating Guidelines for Small Finance Banks issued by Department of Banking Regulation (RBI/2016-17/81 DBR.NBD.No.26/16.13.218/2016-17 dated October 06, 2016) on Credit risk transfer and portfolio sales/purchases.

14. Monitoring and Non-achievement of Priority Sector targets:

To ensure continuous flow of credit to priority sector, the compliance of banks will be monitored on quarterly basis. The data on priority sector advances has to be furnished by banks at **quarterly** and **annual** intervals as per reporting format.

The mechanism of RIDF, in which Banks having any shortfall in lending to priority sector / sub-sectors, are allocated amounts for contribution to the RIDF established with NABARD and other funds with NABARD / NHB / SIDBI / MUDRA Ltd., shall be made applicable commencing from the year 2019-20 i.e. banks having shortfall in their PSL targets / sub-targets as on March 31, 2019, will require to contribute to RIDF and other funds in the following year, as directed by Reserve Bank.

The achievement will be arrived at the end of financial year based on the average of priority sector target /sub-target achievement as at the end of each quarter. (Illustrative example give in Annexure – I)

The misclassifications identified during the course of supervisory inspection by RBI would be adjusted / reduced from the achievement of that year, to which the amount of declassification / misclassification pertains, for arriving at the actual achievements of targets and sub-targets.

Further, non-achievement of priority sector targets and sub-targets will be taken into account while granting regulatory clearances / approvals for various purposes.

SECTION – VII. Common Guidelines For Priority Sector Loans

SFBs should comply with the following common guidelines for all categories of advances under the priority sector.

i. Rate of interest

The rates on interest on bank loans will be as per directives issued by our Department of Banking Regulation from time to time.

ii. Service charges

No loan related and adhoc service charges/inspection charges should be levied on priority sector loans up to ₹25,000. In case of eligible priority sector loans to SHGs/JLGs, this limit will be applicable per member and not to the group as a whole.

iii. Receipt, Sanction/Rejection/Disbursement Register

A register/ electronic record should be maintained by the bank, wherein the date of receipt, sanction/rejection/disbursement with reasons thereof, etc., should be recorded. The register/electronic record should be made available to all inspecting agencies.

iv. Issue of Acknowledgement of Loan Applications

Banks should provide acknowledgement for loan applications received under priority sector loans. Bank Boards should prescribe a time limit within which the bank communicates its decision in writing to the applicants.

v. Definitions/Clarifications:

a) Contingent liabilities/off-balance sheet items do not form part of priority sector target achievement.

b) The term “all-inclusive interest” includes interest (effective annual interest), processing fees and service charges.

c) Banks should ensure that loans extended under priority sector are for approved purposes and the end use is continuously monitored. The banks should put in place proper internal controls and systems in this regard.

vi. Amendments

These guidelines are subject to any further instructions that may be issued by the RBI from time to time.

Annexure – I

Priority Sector Target Achievement – Calculation of shortfall / excess

<u>Illustrative example</u>:

Tables No.1 and 2 below illustrate the method followed for computation of shortfall / excess in priority sector target achievement at the end of financial year.

Amount in ₹ thousands

(Table – 1)

Quarter ended	PSL targets	Priority Sector Amount Outstanding	Shortfall / Excess
June	3296156032	3169380800	-126775232
September	3088265369	3119459969	31194600
December	3176948703	3192913269	15964566
March	3245609908	3213475156	-32134752
Total	12806980012	12695229194	-111750818
Average	3201745003	3173807299	-27937704

Amount in ₹ thousands

(Table – 2)

Quarter ended	PSL targets	Priority Sector Amount Outstanding	Shortfall / Excess
June	3296156032	3279675252	-16480780
September	3088265369	3123780421	35515052
December	3176948703	3272257164	95308461
March	3245609908	3213153809	-32456099
Total	12806980012	12888866646	81886634
Average	3201745003	3222216661	20471658

In the example given in Table -1, the bank has overall shortfall of ₹27937704 thousands at the end of the finance year. In table – 2, the bank has overall excess of ₹20471658 thousands at the end of the financial year.

The method will be followed for calculating the achievement of quarterly and yearly priority sector sub-targets.

Note: The computation of priority sector targets / sub-targets achievement will be based on the ANBC as at the corresponding date of the preceding year.

CHAPTER III: LENDING TO MICRO, SMALL AND MEDIUM ENTERPRISES

Definitions/ Clarifications

In these guidelines, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them as below:

a) The MSMED Act, 2006 means ‘Micro, Small and Medium Enterprises Development (MSMED) Act, 2006’ as notified by the Government of India on June 16, 2006 and the amendments, if any, carried out therein by the Government of India from time to time.
b) ‘Micro, Small and Medium Enterprises’ mean the enterprises as defined in the MSMED Act, 2006 and the amendments, if any, carried out therein by the Government of India from time to time.
c) ‘Manufacturing’ and ‘Service’ Enterprises mean the enterprises as defined in the MSMED Act, 2006 or as notified by the Government of India, Ministry of MSME under the MSMED Act, 2006 from time to time.
d) ‘Priority Sector’ means the sectors as defined in Chapter – II on Priority Sector Lending – Targets and Classification.
e) ‘Adjusted Net Bank Credit (ANBC)’ would mean Adjusted Net Bank Credit (ANBC) as defined in Chapter – II on Priority Sector Lending – Targets and Classification.

SECTION – I. MSMED Act, 2006

1.1 Micro, Small & Medium Enterprises Development (MSMED) Act, 2006

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 and notified the same vide Gazette Notification dated June 16, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place is the inclusion of the services sector in the definition of Micro, Small & Medium enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services. The Reserve Bank has notified the changes to all scheduled commercial banks. Further, the definition, as per the Act, has been adopted for purposes of bank credit vide RBI circular ref. RPCD.PLNFS. BC.No.63/06.02.31/2006-07 dated April 4, 2007.

1.2 Definition of Micro, Small and Medium Enterprises

a) **Manufacturing Enterprises i.e.** Subject to the definition in MSMED Act, 2006, manufacturing enterprises would mean enterprises engaged in the manufacture or production of goods as specified below:

(i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs.25 lakh;

(ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs.25 lakh but does not exceed Rs.5 crore; and

(iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006 **(Annexure I)**.

b) **Service Enterprises i.e.** Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) as specified below:

(i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs.10 lakh;

(ii) A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore; and

(iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs.5 crore.

1.3 Priority Sector Guidelines for MSME sector

In terms of Chapter – II on Priority Sector Lending – Targets and Classification, loans to Micro, Small and Medium Enterprises, for both Manufacturing and Service sectors are eligible to be classified under the Priority Sector as per the norms prescribed in Para 2 on Micro, Small and Medium Enterprises (MSMEs) of Chapter – II.

Since the MSMED Act, 2006 does not provide for clubbing of investments of different enterprises set up by same person / company for the purpose of classification as Micro, Small and Medium enterprises, the Gazette Notification No. S.O.2 (E) dated January 1, 1993 on clubbing of investments of two or more enterprises under the same ownership for the purpose of classification of industrial undertakings as SSI has been rescinded vide GOI Notification No. S.O. 563 (E) dated February 27, 2009.

SECTION – II. Targets / Sub-Targets For MSME For SFBs

2. Targets / sub-targets for lending to Micro, Small and Medium Enterprises (MSME) sector by Small Finance Banks

2.1 Advances to Micro, Small and Medium Enterprises (MSME) sector shall be reckoned in computing achievement under the overall Priority Sector target of 75 percent of Adjusted Net Bank Credit (ANBC).

2.2 Small Finance Banks are required to achieve a sub-target of 7.5 percent of ANBC for lending to Micro Enterprises.

2.3 Bank loans above ₹ 5 crore per borrower / unit to Micro and Small Enterprises and ₹10 crore to Medium Enterprises engaged in providing or rendering of services and defined in terms of investment in equipment under MSMED Act, 2006, shall not be reckoned in computing achievement under the overall Priority Sector targets as above.

SECTION – III. Common Guidelines For Lending To MSME Sector

3.Common guidelines / instructions for lending to MSME sector

3.1 Issue of Acknowledgement of Loan Applications to MSME borrowers

SFBs are advised to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt. SFBs are further advised to put in place a system of Central Registration of loan applications, online submission of loan applications and a system of e-tracking of MSE loan applications.

3.2 Collateral

The guidelines regarding extending collateral free loans to MSE are under examination and a separate communication in this regard shall be made in due course.

3.3 Composite Loan

A composite loan limit of Rs.1 crore can be sanctioned by SFBs to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

3.4 General Credit Card (GCC) Scheme

SFBs may be guided by the circular no. RPCD.MSME & NFS. BC. No. 61/06.02.31/2013-14 dated December 02, 2013 on General Credit Card Scheme for greater credit linkage for all productive activities within the overall Priority Sector guidelines and to capture all credit extended by banks to individuals for non-farm entrepreneurial activity.

3.5 Credit Linked Capital Subsidy Scheme (CLSS)

Government of India, Ministry of Micro, Small and Medium Enterprises had launched Credit Linked Capital Subsidy Scheme (CLSS) for Technology Upgradation of Micro and Small Enterprises subject to the following terms and conditions:

(i) Ceiling on the loan under the scheme is Rs.1 crore.

(ii) The rate of subsidy is 15% for all units of micro and small enterprises up to loan ceiling at Sr. No. (i) above

(iii) Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery instead of term loan disbursed to the beneficiary unit.

(iv) SIDBI and NABARD will continue to be implementing agencies of the scheme.

3.6 Streamlining flow of credit to Micro and Small Enterprises (MSEs) for facilitating timely and adequate credit flow during their 'Life Cycle':

In order to provide timely financial support to Micro and Small enterprises facing financial difficulties during their 'Life Cycle', guidelines were issued to banks vide our circular FIDD.MSME & NFS.BC.No.60/06.02.31/2015-16 dated August 27, 2015 on the captioned subject. SFBs are advised to tune their lending policies to the MSE sector by incorporating therein the provisions in terms of the above circular so as to facilitate timely and adequate availability of credit to viable MSE borrowers especially during the need of funds in unforeseen circumstances.

3.7 Debt Restructuring Mechanism for MSMEs

(i) SFBs are advised to follow the guidelines / instructions pertaining to SME Debt Restructuring, as contained in Master Circular DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances' and as updated from time to time.

(ii) SFBs are also advised in terms of our circular RPCD.SME&NFS.BC.No. 102/06.04.01/2008-09 dated May 4, 2009 to do the following:

  a) put in place loan policies governing extension of credit facilities, Restructuring/Rehabilitation policy for revival of potentially viable sick units / enterprises (now read with guidelines on Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises issued on March 17,

2016) and non- discretionary One Time Settlement scheme for recovery of non-performing loans for the MSE sector, with the approval of the Board of Directors and

b) give wide publicity to the One Time settlement scheme implemented by them, by placing it on the bank's website and through other possible modes of dissemination. They may allow reasonable time to the borrowers to submit the application and also make payment of the dues in order to extend the benefits of the scheme to eligible borrowers.

3.8 Framework for Revival and Rehabilitation of MSMEs

The Ministry of Micro, Small and Medium Enterprises, Government of India, vide their Gazette Notification dated May 29, 2015 had notified a '**Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises**' to provide a simpler and faster mechanism to address the stress in the accounts of MSMEs and to facilitate the promotion and development of MSMEs. RBI issued the operating instructions to banks vide circular FIDD.MSME & NFS.BC.No.21/06.02.31/2015-16 on March 17, 2016 on March 17, 2016 after carrying out certain changes in the captioned Framework in consultation with the Government of India, Ministry of MSME so as to make it compatible with the existing regulatory guidelines on 'Income Recognition, Asset Classification and provisioning pertaining to Advances'. The revival and rehabilitation of MSME units having loan limits up to Rs.25 crore would be undertaken under this Framework. The revised Framework supersedes our earlier Guidelines on Rehabilitation of Sick Micro and Small Enterprises issued vide our circular RPCD. CO. MSME & NFS.BC.40/06.02.31/2012-2013 dated November 1, 2012, except those relating to Reliefs and Concessions for Rehabilitation of Potentially Viable Units and One Time Settlement, mentioned in the said circular. SFBs may be guided by the contents of the above circular.

3.9 Structured Mechanism for monitoring the credit growth to the MSE sector

In view of the concerns emerging from the deceleration in credit growth to the MSE sector, an Indian Banking Association (IBA)-led Sub-Committee (Chairman: Shri K.R. Kamath) was set up to suggest a structured mechanism to be put in place by banks to monitor the entire gamut of credit related issues pertaining to the sector. Based on the recommendations of the Committee, detailed guidelines were issued to the scheduled commercial banks vide our circular RPCD. MSME&NFS.BC.No.74/06.02.31/2012-13 dated May 9, 2013. SFBs may be guided by the contents of the above circular.

SECTION –IV. Institutional Arrangements

4 Institutional arrangements

4.1 Empowered Committee on MSMEs

As part of the announcement made by the Union Finance Minister, Empowered Committees on MSMEs are constituted at the Regional Offices of Reserve Bank of India under the Chairmanship of the Regional Directors with the representatives of SLBC Convenor, senior level officers from two banks having predominant share in MSME financing in the state, representative of SIDBI Regional Office, the Director of MSME or Industries of the State Government, one or two senior level representatives from the MSME Associations in the state, and a senior level officer from SFC/SIDC as members. The Committee would meet periodically and review the progress in MSME financing as also rehabilitation of sick Micro, Small and Medium units. It would also coordinate with other banks/financial institutions and the state government in removing bottlenecks, if any, to ensure smooth flow of credit to the sector.

4.2 Banking Codes and Standards Board of India (BCSBI)

The Banking Codes and Standards Board of India (BCSBI) has formulated a Code of Bank's Commitment to Micro and Small Enterprises. This is a voluntary Code, which sets minimum standards of banking practices for banks to follow when they are dealing with Micro and Small Enterprises (MSEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to-day operations and in times of financial difficulty.

The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India and SFBs will comply with such instructions /directions issued by the RBI from time to time. The complete text of the Code is available at the BCSBI's website (www.bcsbi.org.in).

4.3 Micro and Small Enterprises Sector – The imperative of Financial Literacy and consultancy support

Keeping in view the high extent of financial exclusion in the MSME sector, it is imperative for SFBs that the excluded units are brought within the fold of the formal banking sector. The lack of financial literacy, operational skills, including accounting and finance, business planning etc. represent formidable challenges for MSE borrowers underscoring the need for facilitation by banks in these critical financial areas. SFBs may refer to Chapter IV in this regard.

4.4 Cluster Approach

SFBs may extend banking services in clusters / agglomerations which are as under:

(i) 388 clusters are identified by United Nations Industrial Development Organisation (UNIDO) spread over 21 states in various parts of the country. A list of SME clusters as identified by UNIDO is available in Annex II of the Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector dated July 21, 2016.

(ii) The Ministry of Micro, Small and Medium Enterprises has approved a list of clusters under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) and Micro and Small Enterprises Cluster Development Programme (MSE-CDP) located in 121 Minority Concentration Districts.

4.5 Delayed Payment

In the Micro, Small and Medium Enterprises Development (MSMED), Act 2006, the provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened as under:

(i) The buyer has to make payment to the supplier on or before the date agreed upon between him and the supplier in writing or, in case of no agreement, before the appointed day. The period agreed upon between the supplier and the buyer shall not exceed forty five days from the date of acceptance or the day of deemed acceptance.

(ii) In case the buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.

(iii) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.

(iv) In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

Further, SFBs are advised to fix sub-limits within the overall working capital limits to the large borrowers specifically for meeting the payment obligation in respect of purchases from MSMEs.

SECTION –V. Committees On Flow Of Credit To MSME Sector

5. SFBs may be guided by the contents of the following circulars while extending credit to MSE sector.

5.1 Report of the High Level Committee on Credit to SSI (now MSE) (Kapur Committee)

All scheduled commercial banks were advised vide our circular RPCD.No. PLNFS.BC.22 /06.02.31/98-99 dated August 28, 1998 to implement the Kapur Committee Recommendations.

5.2 Report of the Committee to Examine the Adequacy of Institutional Credit to SSI Sector (now MSE) and Related Aspects (Nayak Committee)

All scheduled commercial banks were advised vide our circular RPCD. PLNFS/ BC. No. 61/06.0262/2000-01 dated March 2, 2001 to implement the Nayak Committee Recommendations.

5.3 Report of the Working Group on Flow of Credit to SSI (now MSE) Sector (Ganguly Committee)

The recommendations of the Committee was communicated to banks for implementation vide circular RPCD.PLNFS.BC.28/06.02.31 (WG)/ 2004-05 dated September 4, 2004.

5.4 Working Group on Rehabilitation of Sick SMEs (Chairman: Dr. K.C. Chakrabarty)

Banks were advised vide circular dated RPCD. SME & NFS.BC.No. 102/06.04.01/ 2008-09 dated May 4, 2009 to consider implementation of the recommendations, inter alia, that lending in case of all advances upto Rs 2 crores may be done on the basis of scoring model. Banks have further been advised vide circular DBOD. Dir. BC.No. 106/13.03.00/2013-14 dated April 15, 2014 to undertake a review of their loan policy governing extension of credit facilities to the MSE sector, with a view to using Board approved credit scoring models in their evaluation of the loan proposals of MSE borrowers.

Annexure I

MINISTRY OF SMALL SCALE INDUSTRIES
NOTIFICATION
New Delhi, the 5th October, 2006

S.O. 1722(E) – In exercise of the powers conferred by sub-section (1) of Section 7 of the MSMED Act, 2006 (27 of 2006) herein referred to as the said Act, the Central Government hereby specifies the following items, the cost of which shall be excluded while calculating the investment in plant and machinery in the case of the enterprises mentioned in Section 7(1)(a) of the said Act, namely:

(i) equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumables stores;
(ii) installation of plant and machinery;
(iii) research and development equipment and pollution controlled equipment
(iv) power generation set and extra transformer installed by the enterprise as per regulations of the State Electricity Board;
(v) bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation;
(vi) procurement or installation of cables, wiring, bus bars, electrical control panels (not mounted on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the plant and machinery or for safety measures;
(vii) gas producer plants;
(viii) transportation charges (excluding sales-tax or value added tax and excise duty) for indigenous machinery from the place of their manufacture to the site of the enterprise;
(ix) charges paid for technical know-how for erection of plant and machinery;
(x) such storage tanks which store raw material and finished products and are not linked with the manufacturing process; and
(xi) firefighting equipment.

2. While calculating the investment in plant and machinery referred to in paragraph 1, the original price thereof, irrespective of whether the plant and machinery are new or second hand, shall be taken into account provided that in the case of imported machinery, the following shall be included in calculating the value, namely;

(i) Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);
(ii) Shipping charges;
(iii) Customs clearance charges; and
(iv) Sales tax or value added tax.

----S/d-----

(F.No.4(1)/2006-MSME- Policy)
JAWHAR SIRCAR, Addl. Secy.

CHAPTER IV: FINANCIAL LITERACY

SECTION – I Conduct of Financial Literacy Camps by Rural banking outlets manned by bank's own staff

Conduct of Financial Literacy Camps

Rural banking outlets manned by bank's own staff of SFBs are required to conduct one camp per month (on the Third Friday of each month after branch hours). This camp will cover all the messages that are part of the Financial Awareness Messages (FAME) booklet and the two digital platforms UPI and *99# (USSD). The proposed approach by rural banking outlets manned by bank's own staff is illustrated in Annex I. In case there are two or more such outlets in a village, the LDM may ensure that such outlets conduct the camps on rotation basis every month.

Funding support from FIF

Rural banking outlets manned by bank's own staff of SFBs are eligible for funding support for the financial literacy camps to the extent of 60% of the expenditure of the camp subject to a maximum of ₹ 5,000/- per camp. For details on funding, please refer circular No. 107/DFIBT-24/ 2017 dated May 4, 2017 issued by NABARD.

SECTION – II. Reporting Mechanism

Reporting mechanism:

The reporting format as in **Annexure I** has to be submitted to SLBCs / UTLBCs within 30 days from the end of the quarter.

The above guidelines will come into force from July 1, 2017 and the reporting format will be effective from the quarter ending September 30, 2017.

The impact of the financial literacy camps will be assessed / evaluated on an ongoing basis by the Lead District Officers (LDOs) of Reserve Bank of India.

Annexure I

QUARTERLY REPORT ON CONDUCT OF CAMPS BY RURAL BRANCHES OF BANKS

State	
Quarter ended	
Year	

District	No of rural banking outlets manned by bank's own staff in district	No of camps conducted during the quarter

CHAPTER V: FINANCIAL INCLUSION

SECTION – I. Financial Inclusion Plans

Financial Inclusion Plans

As the Small Finance Banks have been set up to further financial inclusion and their client base would primarily be migrant labour workforce, low income households, small businesses, other unorganised sector entities etc. their internal target should be in line with their objectives. The bank's Board shall review the progress in this regards on regular basis and submit progress report on monthly basis in respect of the various parameters prescribed by RBI in the Financial Inclusion Plan (FIP) monitoring format. In this connection, the guidelines on FIP for Small Finance Banks are as under:

a. Small Finance Banks shall adopt the **template of Financial Inclusion Plan** provided by RBI to submit granular data upto district level across the four population groups, namely- Metropolitan, Urban, Semi Urban and Rural. The date of submission of the monthly progress shall be 15th of the succeeding month for data pertaining to the previous month.
b. Progress in respect of various parameters of FIP shall be monitored on a monthly basis and a review shall be conducted on an annual basis.

SECTION – II. Business Correspondents

Business Correspondents- Cash Management and Umbrella Insurance

SFBs may formulate a policy for engaging Business Correspondents (BCs), with the approval of their Board of Directors and be guided by instructions issued by Department of Banking Regulation (DBR) on Business Correspondents under Master Circular on Branch Authorisation (available on DBOD. No. BAPD.BC. 7/22.01.001/2014-15 dated July 01, 2014) updated from time to time. The activities to be undertaken by the BCs would be within the normal course of banking business. With a view to providing impetus to functioning of BCs in furthering financial inclusion, the following guidelines pertaining to cash management are issued:

a. The Boards of the banks must review the operations of BCs at least once every six months with a view to ensuring that the requirement of prefunding of Corporate BCs and

BC Agents should progressively taper down with the passage of time. Ideally in all normal cases, the prefunding should progressively come down in such a manner so as to reach around 15% of the limits fixed for each BC/CSP in case of deposits and 30% in case of Bank Guarantees, in two years from the time a BC starts operations.

b. The Board should also review the position of payment to remuneration of BCs and should also lay down a system of monitoring by the top management of the bank. The issue of allowing BCs to handle deposit and payment transactions of various credits, remittance, overdraft and other products of banks must also be examined by the Board from time to time. Complaints redress system in this regard should also be laid down by the Board.

c. The banks should put in place a Board approved mechanism for providing Umbrella Insurance for cash handled by BCs.

SECTION – III. SHG-Bank Linkage Programme

SHG-Bank Linkage Programme for Small Finance Banks

To scale up the SHGs linkage programme and make it sustainable, SFBs are advised to consider lending to SHGs as part of their mainstream credit operations both at policy and implementation level. They may include SHG linkage in their corporate strategy/plan, training curriculum of their officers and staff and implement it as a regular business activity and monitor and review it periodically.

In line with the above, the following guidelines may be considered by SFBs while formulating policies pertaining to Self Help Groups.

a. SHG lending to be a part of planning process: Lending to SHGs should be included in branch credit plan, block credit plan, district credit plan and state credit plan of each SFB. While no target is being prescribed under SHG bank linkage programme, utmost priority should be accorded to the sector in preparation of these plans. It should also form an integral part of the bank's corporate credit plan.

b. Opening of Savings Bank A/c: The SHGs registered or unregistered which are engaged in promoting savings habit among their members would be eligible to open savings bank accounts with SFBs. These SHGs need not necessarily have already availed of credit facilities from banks before opening savings bank accounts. KYC verification of all the members of SHG shall not be required while opening the savings bank account of the SHG as KYC verification of all the office bearers shall suffice. No separate KYC verification of the members or office bearers shall be necessary at the time of credit linking of SHGs.

c. **Margin and Security Norms:** As per operational guidelines issued by NABARD, SHGs may be sanctioned savings linked loans by banks (varying from a saving to loan ratio of 1:1 to 1:4). However, in case of matured SHGs, loans may be given beyond the limit of four times the savings as per the discretion of the bank.

d. **Documentation:** A simple system requiring minimum procedures and documentation is a precondition for augmenting flow of credit to SHGs. Banks should strive to remove all operational irritants and make arrangements to expeditiously sanction and disburse 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 credit.

e. **Presence of defaulters in SHGs:** Defaults by a few members of SHGs and/or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank.

f. **Capacity Building and Training:** SFBs may initiate suitable steps to internalize the SHGs linkage project and organize exclusive short duration programmes for the field level functionaries. In addition, suitable awareness/sensitization programmes may be conducted for their middle level controlling officers as well as senior officers.

g. **Monitoring and Review of SHG Lending**: The progress of the SHG programme may be reviewed by the SFBs at regular intervals. A progress report, as prescribed vide circular FIDD.FID.BC.No.56/12.01.033/2014-15 dated May 21, 2015, may be sent to NABARD (Micro Credit Innovations Department), Mumbai, on a half-yearly basis, as on 30 September and 31 March each year so as to reach within 30 days of the half-year to which the report relates.

h. **Interest rates:** SFBs would have the discretion to decide on the interest rates applicable to loans given by banks to Self Help Groups/member beneficiaries.

i. **Service/ Processing charges:** No loan related and ad hoc service charges/inspection charges should be levied on priority sector loans up to ₹ 25,000. In the case of eligible priority sector loans to SHGs/ JLGs, this limit will be applicable per member and not to the group as a whole.

j. **Total Financial Inclusion and Credit Requirement of SHGs:** SFBs have been advised to meet the entire credit requirements of SHG members namely, (a) income generation activities, (b) social needs like housing, education, marriage, etc. and (c) debt swapping.

k. **Encourage SHG Linkage:** SFBs should provide adequate incentives to their branches in financing the Self Help Groups (SHGs) and establish linkages with them, making the procedures absolutely simple and easy while providing for total flexibility in such procedures to suit local conditions. The group dynamics of working of the SHGs need neither be regulated nor formal structures imposed or insisted upon. The approach to financing of SHGs should be totally hassle-free and may include consumption expenditures.

CHAPTER VI: FARM SECTOR

SECTION – I. Revised Kisan Credit Card (KCC) Scheme

1. Introduction

The Kisan Credit Card (KCC) scheme was introduced in 1998 for issue of Kisan Credit Cards to farmers on the basis of their holdings for uniform adoption by the banks so that farmers may use them to readily purchase agriculture inputs such as seeds, fertilizers, pesticides etc. and draw cash for their production needs. The scheme was further extended for the investment credit requirement of farmers viz. allied and non-farm activities in the year 2004. The scheme was further revisited in 2012 by a working Group under the Chairmanship of Shri T. M. Bhasin, CMD, Indian Bank with a view to simplify the scheme and facilitate issue of Electronic Kisan Credit Cards. The scheme provides broad guidelines to banks for operationalizing the KCC scheme. Implementing banks will have the discretion to adopt the same to suit institution/location specific requirements.

2. Applicability of the Scheme

The Kisan Credit Card Scheme detailed in the ensuing paragraphs is to be implemented by Commercial Banks, RRBs, Small Finance Banks and Cooperatives.

3. Objective / Purpose

The Kisan Credit Card scheme aims at providing adequate and timely credit support from the banking system under a single window with flexible and simplified procedure to the farmers for their cultivation and other needs as indicated below:

a. To meet the short term credit requirements for cultivation of crops;
b. Post-harvest expenses;
c. Produce marketing loan;
d. Consumption requirements of farmer household;
e. Working capital for maintenance of farm assets and activities allied to agriculture;
f. Investment credit requirement for agriculture and allied activities.

Note: The aggregate of components **'a' to 'e'** above will form the short term credit limit portion and the aggregate of components under **'f'** will form the long term credit limit portion.

4. Eligibility

i. Farmers - individual/joint borrowers who are owner cultivators;

ii. Tenant farmers, oral lessees & share croppers;

iii. Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of farmers including tenant farmers, share croppers etc.

5. Fixation of credit limit / Loan amount

The credit limit under the Kisan Credit Card may be fixed as under:

5.1 All farmers other than marginal farmers[1] :

5.1.1 The short term limit to be arrived for the first year (For cultivating single crop in a year):

Scale of finance for the crop (as decided by District Level Technical Committee) x Extent of area cultivated + 10% of limit towards post-harvest/household/ consumption requirements + 20% of limit towards repairs and maintenance expenses of farm assets + crop insurance and/or accident insurance including PAIS, health insurance & asset insurance.

5.1.2 Limit for second & subsequent year

First year limit for crop cultivation purpose arrived at as above plus 10% of the limit towards cost escalation / increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year) and estimated term loan component for the tenure of Kisan Credit Card, i.e., five years. **(Illustration I)**

5.1.3 For cultivating more than one crop in a year

The limit is to be fixed as above depending upon the crops cultivated as per proposed cropping pattern for the first year plus an additional 10% of the limit towards cost escalation / increase in scale of finance for every successive year (2nd, 3rd, 4th and 5th year). It is assumed that the farmer adopts the same cropping pattern for the succeeding four years. In case the cropping pattern adopted by the farmer is changed in the subsequent year, the limit may be reworked. **(Illustration I)**

[1] Farmers with landholding of up to 1 hectare (Marginal Farmers). Farmers with a landholding of more than 1 hectare and up to 2 hectares (Small Farmers).

5.1.4 Term loan for investment

The term loan for investment is to be made towards land development, minor irrigation, purchase of farm equipment and allied agricultural activities. The banks may fix the quantum of credit for term and working capital limit for agricultural and allied activities, etc., based on the unit cost of the asset/s proposed to be acquired by the farmer, the allied activities already being undertaken on the farm, the bank's judgment on repayment capacity vis-a-vis total loan burden devolving on the farmer, including existing loan obligations.

The long term loan limit should be based on the proposed investment(s) during the five year period and the bank's perception on the repaying capacity of the farmer.

5.1.5 Maximum Permissible Limit

The short term loan limit arrived for the 5th year plus the estimated long term loan requirement will be the Maximum Permissible Limit (MPL) and is to be treated as the Kisan Credit Card limit.

5.1.6 Fixation of Sub-limits

i. Short term loans and term loans are governed by different interest rates. At present, short term crop loans upto ₹ 3 lakh are covered under Interest Subvention Scheme/Prompt Repayment Incentive scheme of the Government of India[2]. Further, repayment schedule and norms are different for short term and term loans. Hence, in order to have operational and accounting convenience, the card limit is to be bifurcated into separate sub-limits for short term cash credit limit cum savings account and term loans.

ii. Drawing limit for short term cash credit should be fixed based on the cropping pattern. The amount(s) for crop production, repair and maintenance of farm assets and consumption may be allowed to be drawn as per the convenience of the farmer. In case the revision of scale of finance for any year by the district level technical committee exceeds the notional hike of 10% contemplated while fixing the five year limit, a revised drawable limit may be fixed in consultation with the farmer. In case such revisions require the card limit itself to be enhanced (4th or 5th year), the same may be done and the farmer be so advised.

[2] Currently not applicable to Small Finance Banks.

iii. For term loans, instalments may be allowed to be withdrawn based on the nature of investment and repayment schedule drawn as per the economic life of the proposed investments. It is to be ensured that at any point of time the total liability should be **within the drawing limit of the concerned year**.

iv. Wherever the card limit / liability so arrived warrants additional security, the banks may take suitable collateral as per their policy.

5.2 For Marginal Farmers

A flexible limit of ₹ 10, 000 to ₹ 50, 000 may be provided (as Flexi KCC) based on the land holding and crops grown including post-harvest warehouse storage related credit needs and other farm expenses, consumption needs, etc., plus small term loan investment(s) like purchase of farm equipment(s), establishing mini dairy/backyard poultry as per assessment of the Branch Manager without relating it to the value of land. The composite KCC limit is to be fixed for a period of five years on this basis.

Wherever higher limit is required due to change in cropping pattern and / or scale of finance, the limit may be arrived at as per the estimation indicated at para 4.1 **(Illustration II)**

6. Disbursement

6.1 The short term component of the KCC limit is in the nature of revolving cash credit facility. There should be no restriction in number of debits and credits. The drawing limit for the current season/year could be allowed to be drawn using any of the following delivery channels.

i. operation through branch;
ii. operation using cheque facility;
iii. withdrawal through ATM /debit cards
iv. operation through Business Correspondents and 'banking outlet/part-time banking outlet'[3]
v. operation through PoS available in Sugar Mills/Contract farming companies, etc., especially for tie-up advances;
vi. operations through PoS available with input dealers;
vii. Mobile based transfer transactions at agricultural input dealers and mandies.

[3] DBR's Circular on Rationalisation of Branch Authorisation Policy- Revision of Guidelines

Note: (v), (vi) & (vii) to be introduced as early as possible so as to reduce transaction costs of both the bank as well as the farmer.

6.2 The long term loan for investment purposes may be drawn as per installment fixed.

7. Issue of Electronic Kisan Credit Cards

All new KCC must be issued as smart card cum debit card as laid down in Part II of the Annex. Further, at the time of renewal of existing KCC; farmers must be issued smart card cum debit card.

The short term credit limit and the term loan limit are two distinct components of the aggregate KCC limit bearing different rates of interest and repayment periods. Until a composite card could be issued with appropriate software to separately account transactions in the sub limits, two separate electronic cards may be issued for all new/renewed cards.

8. Validity/Renewal

i. Banks may determine the validity period of KCC and its periodic review.
ii. The review may result in continuation of the facility, enhancement of limit or cancellation of the limit/withdrawal of the facility depending upon increase in cropping area/pattern and performance of the borrower.
iii. When the bank has granted extension and/or re-schedule the period of repayment on account of natural calamities affecting the farmer, the period for reckoning the status of operations as satisfactory or otherwise would get extended together with the extended amount of limit. When the proposed extension is beyond one crop season, the aggregate of debits for which extension is granted is to be transferred to a separate term loan account with stipulation for repayment in installments.

9. Rate of Interest (ROI):

The rate of interest will be as stipulated in DBR Master Directions on Interest Rate on Advances.

10. Repayment Period:

10.1 The repayment period may be fixed by banks as per the anticipated harvesting and marketing period for the crops for which the loan has been granted.

10.2 The term loan component will be normally repayable within a period of 5 years depending on the type of activity/investment as per the existing guidelines applicable for investment credit.

10.3 Financing banks may, at their discretion, provide longer repayment period for term loan depending on the type of investment.

11. Margin

To be decided by banks.

12. Security

12.1 Security will be applicable as per RBI guidelines prescribed from time to time.

12.2 Security requirement may be as under:

i. Hypothecation of crops: For KCC limit upto ₹ 1.00 lakh banks are to waive margin/security requirements.
ii. With tie-up for recovery: Banks may consider sanctioning loans on hypothecation of crops up to card limit of ₹ 3.00 lakh without insisting on collateral security.
iii. Collateral security: Collateral security may be obtained at the discretion of Bank for loan limits above ₹ 1.00 lakh in case of non-tie-up and above ₹ 3.00 lakh in case of tie-up advances.
iv. In states where banks have the facility of on-line creation of charge on the land records, the same shall be ensured.

13. Other features

Uniformity to be adopted in respect of following:

13.1 The applicable interest subvention /incentive for prompt repayment[4] as advised by Government of India and/or State Governments. The bankers will give adequate publicity of the facility so that maximum farmers may benefit from the scheme.

13.2 Besides the mandatory crop insurance, the KCC holder should have the option to avail the benefit of any type of asset insurance, accident insurance (including PAIS), health

[4] Currently not applicable to Small Finance Banks.

insurance (wherever product is available) and have premium paid through his/her KCC account. Premium has to be borne by the farmer/bank according to the terms of the scheme. Farmer beneficiaries should be made aware of the insurance cover available and their consent (except in case of crop insurance, it being mandatory) is to be obtained, at the application stage itself.

13.3 A one-time documentation[5] at the first time of availment of KCC loan and thereafter simple declaration (about crops grown/proposed) by farmer from the second year onwards.

14. Classification of account as NPA:

14.1 The extant prudential norms on income recognition, asset-classification and provisioning[6] will apply for loans granted under the KCC Scheme.

14.2 Charging of interest is to be done uniformly as is applicable to agricultural advances.

15. Processing fee, inspection charges and other charges may be decided by banks.

16. Other conditions while implementing the revised guidelines of KCC Scheme:

16.1 In case the farmer applies for loan against the warehouse receipt of his produce, the banks would consider such requests as per the established procedure and guidelines. However, when such loans are sanctioned, these should be linked with the crop loan account, if any, and the crop loan outstanding in the account could be settled at the stage of disbursal of the pledge loan, if the farmer so desires.

16.2 The National Payments Corporation of India (NPCI) will design the KCC card to be adopted by all the banks with their branding.

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[5]Documentation as per banks internal guidelines

[6] DBR's Master Directions on Income Recognition, Asset Classification and Provisioning Norms

Illustration I

A. Small farmer cultivating multiple crops in a year

1. **Assumptions**

   A. Land holding : 2 acres

   B. Cropping Pattern

   Paddy - 1 acre (Scale of finance plus crop insurance per acre : ₹.11000)

   Sugarcane - 1 acre (Scale of finance plus crop insurance per acre : ₹.22,000)

   C. Investment / Allied Activities

   i Establishment of 1+1 Dairy Unit in 1st Year () (Unit Cost : ₹ 20,000 per animal)

   ii Replacement of Pump set in 3rd year (Unit Cost : ₹.30,000)

2. (i) Crop loan Component

Cost of cultivation of 1 acre of Paddy and 1acre of Sugarcane (11,000+22,000)	:	₹.33,000
Add : 10% towards post-harvest / household expense / consumption	:	₹. 3,300
Add : 20% towards farm maintenance	:	₹. 6,600
Total Crop Loan limit for 1st year	:	**₹. 42,900**
Loan Limit for 2nd year		
Add : 10% of the limit towards cost escalation / increase in scale of finance (10% of 42900 i.e 4300)	:	₹. 4,300
		₹. 47,200
Loan Limit for 3rd year	:	
Add : 10% of the limit towards cost escalation / increase in scale of finance (10% of 47,200 i.e., 4,700)		₹. 4,700
		₹. 51,900
	:	
Loan Limit for 4th year	:	
Add : 10% of the limit towards cost escalation / increase in scale of finance (10% of 51,900 i.e 5,200)		₹. 5,200
		₹. 57,100
	:	
Loan Limit for 5th year	:	
Add : 10% of the limit towards cost escalation / increase in scale of finance (10% of 57100 i.e 5700)		₹. 5,700
		₹. 62,800
Say ….(A)	:	**₹. 63,000**

:

(ii) **Term loan component :**

1st Year : Cost of 1+1 Dairy Unit	:	₹. 40,000
3rd Year : Replacement of Pumpset :	:	₹. 30,000
Total term loan amount **….(B)**	:	**₹. 70,000**
Maximum Permissible Limit /	:	**₹. 1,33,000**
Kisan Credit Card Limit (A) +(B)		
	:	**Rs. 1.33 lakh**

Note: Drawing Limit will be reduced every year based on repayment schedule of the term loan(s) availed and withdrawals will be allowed up to the drawing limit.

B Other farmer cultivating multiple crops in a year

1. Assumptions :
2. Land Holding : 10 acres
3. Cropping Pattern :

   Paddy - 5 acres (Scale of finance plus crop insurance per acre ₹.11,000) Followed by

   Groundnut - 5 acres (Scale of finance plus crop insurance per acre ₹.10,000)

   Sugarcane - 5 acres (Scale of finance plus crop insurance per acre ₹.22,000)
4. Investment / Allied Activities :
   i. Establishment 1+1 Dairy Unit in 1st Year (Unit cost : ₹.50,000)
   ii. Purchase of Tractor in 1st Year (Unit Cost : ₹.6,00,000)

2. **Assessment of Card Limit**

(i) ***Crop loan Component***

Cost of cultivation of 5 acres of Paddy, 5 Acres of Groundnut and 5 acres of Sugarcane	:	₹ 2,15,000
Add : 10% towards post-harvest / household expense / consumption	:	₹ 21,500
Add : 20% towards farm maintenance	:	₹ 43,000
Total Crop Loan limit for 1st year	:	**₹ 2,79,500**
Loan Limit for 2nd year		
Add : 10% of the limit towards cost escalation / increase in scale of finance (10% of 2,79,500 i.e., 27,950)	:	₹ 27,950
	:	**₹ 3,07,450**
Loan Limit for 3rd year		
Add : 10% of the limit towards cost escalation / increase in scale of finance (10% of 3,07,450 i.e., 30,750)	:	₹ 30,750

	:	**₹ 3,38,200**
Loan Limit for 4th year		
Add : 10% of the limit towards cost escalation / increase in scale of finance (10% of 338200 i.e., 33,800)	:	₹ 33,800
	:	**₹ 3,72,000**
Loan Limit for 5th year		
Add : 10% of the limit towards cost escalation / increase in scale of finance (10% of 3,72,000 i.e., 37,200)	:	₹ 37,200
	:	**₹ 4,09,200**
Say….	:	**₹ 4,09,000**
(A)		

(ii) **Term loan component :**

1st Year : Cost of 1 +1 Dairy Unit	:	₹ 1,00,000
: Purchase of Tractor	:	₹ 6,00,000
Total term loan amount	**….(B)**	**₹ 7,00,000**

Maximum Permissible Limit /

Kisan Credit Card Limit (A) +(B)	:	**₹ 11,09,000**

Drawing Limit will be reduced every year based on repayment schedule of the term loan(s) availed and withdrawals will be allowed up to the drawing limit.

Illustration II

Assessment of KCC LIMIT

1. Marginal farmer cultivating single crop in a year

1. ***Assumptions :***

   1. Land holding : 1 acre
   2. Crops grown : Paddy (Scale of finance plus crop insurance per acre : ₹ 11,000)
   3. There is no change in Cropping Pattern for 5 years
   4. Allied Activities to be financed - One Non-Descript Milch Animal (Unit Cost Rs : 15,000)

2. ***Assessment of Card Limit :***

   (i) **Crop loan Component**

(Cost of cultivation for 1 acre of Paddy)	:	₹ 11,000
Add : 10% towards post-harvest / household expense / consumption	:	₹ 1,100
Add : 20% towards farm maintenance	:	₹ 2,200
Total Crop Loan limit for 1st year ….(A1)	:	**₹ 14,300**

   (ii) **Term Loan Component**

Cost of One Milch Animal **….(B)**	:	₹ 15,000
1st Year Composite KCC Limit : (A1) + (B)	:	**₹ 29,300**
2nd Year :		
Crop loan component :		
A1 plus 10% of crop loan limit (A1) towards cost escalation / increase in scale of finance [14,300+(10% of 14300 = 1430)] **….(A2)**	:	₹ 15,730
2nd Year Composite KCC Limit : A2+B (15730 + 15000)	:	**₹ 30,730**
3rd Year :		
Crop loan component :		
A2 plus 10% of crop loan limit (A2) towards cost escalation / increase in scale of finance [15,730+(10% of 15730 = 1570)] **….(A3)**	:	₹ 17,300
3rd Year Composite KCC Limit : A3+B (17,300 + 15,000)	:	**₹ 32,300**

4th Year :

Crop loan component :

A3 plus 10% of crop loan limit (A3) towards cost escalation / increase in scale of finance [17,300+(10% of 17300 = 1730)] **….(A4)** :	₹ 19,030
4th Year Composite KCC Limit : A4+B (19,030 **+ 15,000)**	**₹ 34,030**

5th Year :

Crop loan component :

A4 plus 10% of crop loan limit (A4) towards cost escalation / increase in scale of finance [19,030+(10% of 19,03 0 = 1,900)] **….(A5)** :	₹ 20,930
5th Year Composite KCC Limit : A5+B (20,930 **+ 15,000)**	**₹35,930**

Maximum Permissible Limit /

Composite KCC Limi Say :	**Rs.36,000**

Note: All the above costs estimated are illustrative in nature. The recommended scale of finance / unit costs may be taken into account while finalising the credit limit.

Delivery Channels - Technical features

1 Issue of cards

The beneficiaries under the scheme will be issued with a Smart card / Debit card (Biometric smart card compatible for use in the ATMs / Hand held Swipe Machines and capable of storing adequate information on farmers identity, assets, land holdings and credit profile etc.). All KCC holders should be provided with any one or a combination of the following types of cards :

2 Type of Card :

A magnetic stripe card with PIN (Personal Identification Number) with an ISO IIN (International Standards Organization International Identification Number) to enable access to all banks ATMs and micro ATMs

In cases where the Banks would want to utilize the centralized biometric authentication infrastructure of the UIDAI (Aadhaar authentication), debit cards with magnetic stripe and PIN with ISO IIN with biometric authentication of UIDAI can be provided.

Debit Cards with magnetic stripe and only biometric authentication can also be provided depending on customer base of the bank. Till such time, UIDAI becomes widespread, if the banks want to get started without inter-operability using their existing centralized bio metric infrastructure, banks may do so.

Banks may choose to issue EMV (Europay, MasterCard and VISA, a global standard for interoperation of integrated circuit cards) and RUPAY compliant chip cards with magnetic stripe and pin with ISO IIN.

Further, the biometric authentication and smart cards may follow the common open standards prescribed by IDRBT and IBA. This will enable them to transact seamlessly with input dealers as also enable them to have the sales proceeds credited to their accounts when they sell their output at mandies, procurement centers, etc.

3 Delivery Channels :

The following delivery channels shall be put in place to start with so that the Kisan Credit Card is used by the farmers to effectively transact their operations in their KCC account.

1. Withdrawal through ATMs / Micro ATM
2. Withdrawal through BCs using smart cards.

3. PoS machine through input dealers

4. Mobile Banking with IMPS capabilities / IVR

4. Mobile Banking / Other Channels :

Provide Mobile banking functionality for KCC Cards / Accounts as well along with Interbank Mobile Payment Service (IMPS of NPCI) capability to allow customers to use this inter-operable IMPS for funds transfer between banks and also to do merchant payment transactions as additional capability for purchases of agricultural inputs.

This mobile banking should ideally be on Unstructured Supplementary Data (USSD) platform for wider and safer acceptance. However, the banks can also offer this on other fully encrypted modes (application based or SMS based) to make use of the recent relaxation on transaction limits. Banks can also offer unencrypted mobile banking subject to RBI regulations on transaction limits.

It is necessary that Mobile based transaction platforms enabling transactions in the KCC use easy to use SMS based solution with authentication thru' MPIN. Such solutions also need to be enabled on IVR in local language to ensure transparency and security. Such mobile based payment systems should be encouraged by all the banks by creating awareness and by doing proper customer education.

With the existing infrastructure available with banks, all KCC holders should be provided with any one or a combination of the following types of cards :

* Debit cards (magnetic stripe card with PIN) enabling farmers to operate the limit through all banks ATMs / Micro ATMs
* Debit Cards with magnetic stripe and biometric authentication.
* Smart cards for doing transactions through PoS machines held by Business Correspondents, input dealers, traders and Mandies.
* EMV compliant chip cards with magnetic stripe and pin with ISO IIN.

In addition, the banks having a call centre / Inter active Voice Response (IVR), may provide SMS based mobile banking with a call back facility from bank for mobile PIN (MPIN) verification through IVR, thus making a secured SMS based mobile banking facility available to card holders.

SECTION – II. Relief Measure By Banks In Areas Affected By Natural Calamities

BACKGROUND

2.1 Periodical but frequent occurrence of natural calamity takes a heavy toll on human life and cause wide spread damage to economic pursuits in one or the other part of the country. The devastation caused by natural calamities calls for massive rehabilitation effort from all agencies. The Central, State and local authorities draw programmes on economic rehabilitation for the people affected by natural calamities. The developmental role assigned to the commercial banks including Small Finance Banks warrant their active support in reviving the economic activities of those affected by the occurrence of a natural calamity.

2.2 In terms of the National Disaster Management Framework, there are two funds constituted viz. National Disaster Response Fund (NDRF) and State Disaster Response Fund (SDRF) for providing relief in the affected areas. This framework currently recognizes 12 types of natural calamities viz. cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst, pest attack and cold wave/frost. Out of these 12, for 4 calamities i.e. drought, hailstorms, pest attack and cold wave/frost, the Ministry of Agriculture is the nodal point and for the remaining 8, the Ministry of Home Affairs is the nodal ministry to make the necessary administrative arrangements. A slew of measures for relief are undertaken by the Sovereign (Central/State Government) from time to time to provide relief to the affected people including, inter alia, provision for input subsidies, financial assistance to farmers including small and marginal farmers.

2.3 The role of the scheduled commercial banks including Small Finance Banks (SFBs) is to provide relief measure through rescheduling existing loans and sanctioning fresh loans as per the emerging requirement of the borrowers. To enable banks to take uniform and concerted action expeditiously, these directions are issued covering four aspects viz. (i) Institutional Framework (ii) Restructuring of Existing Loans (iii) Providing Fresh Loans and (iv) Other Ancillary Relief Measures.

INSTITUTIONAL FRAMEWORK

3.1 Establishing Policy/Procedures for dealing with Natural Calamities

The area, time of occurrence and intensity of the natural calamity cannot be anticipated. It is, therefore, imperative that banks have a **blueprint of action** duly approved by the Board of Directors for such eventualities so that the required relief and assistance is provided with utmost speed and without any loss of time. Further, all Divisional/Zonal Offices and branches of Scheduled Commercial/Small Finance banks should be familiar with these standing instructions. These standing instructions will immediately come to force after the district/state authorities put in place the requisite declaration. It is essential that these instructions should also be made available to the State Government authorities and all the District Collectors so that all concerned are aware about the action that should be taken by the concerned authorities in the affected area.

3.2 Discretionary Powers to Divisional / Zonal Manager of banks

The Divisional/Zonal Managers of scheduled commercial/SF banks must be vested with certain discretionary powers to avoid the need to seek fresh approval from their Central Office regarding the line of action decided by the District Consultative Committee/State Level Bankers' Committee. Some of the areas, among others where such discretionary powers are vital may be the adoption of scale of finance, extension of loan period, margin, security, sanction of new loan keeping in view the total liability of the borrower arising out of the old loan where the asset financed is damaged or lost due to the natural calamity and the new loan financed for creation/repair of such asset(s).

3.3 Meeting of State Level Bankers' Committee (SLBC)/District Consultative Committee (DCC)

3.3.1 In the event of an occurrence of a natural calamity which covers a larger part of a State, the State Level Bankers' Committee convener bank should convene a meeting immediately. The committee, in collaboration with the State Government authorities should evolve a coordinated action plan for implementing the relief programme. If the calamity has affected only a small part of the state/few districts, the convener of the District Consultative Committee of the affected district(s) should convene a meeting immediately. In the special SLBC/DCC meeting, the position of the affected areas may be assessed so as to ensure speedy formulation and implementation of suitable relief measures.

3.3.2 In the areas where the calamity is severe, the relief measure(s) implemented should be reviewed periodically through a specially constituted Task Force/Sub-Committee by way of weekly/fortnightly meetings as decided by the SLBC/DCC.

3.4 Declaration of Natural Calamity

3. 4.1 It is recognised that declaration of a natural calamity is in the domain of the Sovereign (Central / State Governments). The inputs received from the State Governments reveal that there are no uniform procedures being followed for declaration of natural calamity and issue of declarations / certificates. These declarations/certificates are called by different names such as Annewari, Paisewari, Girdawari, etc. in different States. Nevertheless, the common thread to extend relief measures including reschedulement of loans by banks, is that **the crop loss assessed should be 33% or more**. For assessing this loss, while some States are conducting crop cutting experiments to determine the loss in crop yield, some others are relying on the eye estimates/visual impressions.

3.4.2 In case of extreme situations such as wide-spread floods, etc. when it is largely clear that most of the standing crops have been damaged and/or land and other assets have suffered a wide-spread damage, the matter be deliberated by State Government/District Authorities in the especially convened SLBC/DCC meetings where the concerned Government functionary/District Collector may explain the reasons for not estimating ‘Annewari’ (percentage of crop loss – by whatever name called) through crop cutting experiments and that the decision to provide relief for the affected populace needs to be taken based on the eye estimate/visual impressions.

3.4.3 In both the cases, however, DCCs/SLBC have to satisfy themselves fully that the crop loss has been 33% or more before acting on these pronouncements.

RESTRUCTURUNG OF EXISTING LOANS

In the event of a natural calamity, the repaying capacity of the people gets severely affected due to the disruption of their economic activities and loss of economic assets. Therefore, relief in loan repayment, by restructuring the existing loan may become necessary.

4.1. Agriculture Loans: Short-term Production Credit (Crop Loans)

4.1.1 All short-term loans, except those which are overdue at the time of occurrence of natural calamity, should be eligible for restructuring. The principal amount of the short-term loan as well as interest due for repayment in the year of occurrence of the natural calamity may be converted into term loan.

4.1.2 The repayment period of the restructured loan may vary depending on the severity of the calamity, the impact on loss of economic assets and distress it caused. A maximum repayment period of up to 2 years (including the moratorium period of 1 year) should be allowed if the loss is between 33% and 50%. If the crop loss is 50% or more, repayment period may be extended upto a maximum of 5 years (including the 1 year moratorium period).

4.1.3 In all restructured loan accounts, moratorium period of **at least one year** should be considered. Banks should also not insist on additional collateral security for such restructured loans.

4.2 Agriculture Loans: Long term (Investment) Credit

4.2.1 The existing term loan installments should be rescheduled keeping in view the repaying capacity of the borrower and the nature of natural calamity viz.

4.2.1.1 Natural Calamities where only crop for that year is damaged and productive assets are not damaged.

4.2.1.2 Natural Calamities where the productive assets are partially or totally damaged and borrowers are in need of a new loan.

4.2.1.3 In regard to natural calamity under category (4.2.1.1) above, the banks may reschedule the payment of installment during the year of natural calamity and extend the loan period by one year. Under this arrangement the installments defaulted willfully in earlier years will not be eligible for rescheduling. The banks may also have to postpone payment of interest by borrowers.

4.2.1.4 In regard to category (4.2.1.2) i.e. where the borrower's assets are partially/totally damaged, the rescheduling by way of extension of loan period may be determined on the basis of overall repaying capacity of the borrower vis-a-vis his total liability (old term loan, restructured crop loan, if any and the fresh crop/term loan being given) less the subsidies received from the Government agencies, compensation available under the insurance schemes, etc. While the total repayment period for the restructured/fresh term loan will differ on case-to-case basis, generally it should not exceed a period of 5 years.

4.3 Other Loans

4.3.1 A view needs to be taken by SLBC/DCC depending on the severity of the calamity as to whether a general reschedulement of all other loans (i.e. besides the agriculture loans as indicated above) such as loans granted for allied activities and loans given to rural artisans, traders, micro/small industrial units or in case of extreme situations, medium enterprises is required. If such a decision is taken, while recovery of all the loans be postponed by the specified period, banks will have to assess the requirement of the individual borrowers in each such case and depending on the nature of his account, repayment capacity and the need for the fresh loans, appropriate decisions shall be taken by the individual banks

4.3.2 The primary consideration before the banks in extending credit to any unit for its rehabilitation should be based on the viability of the venture after the rehabilitation programme is implemented.

4.4 Asset Classification

The asset classification status of the restructured loans will be as under:

4.4.1 The restructured portion of the short term as well as long-term loans may be treated as current dues and need not be classified as NPA. The asset classification of these term loans would thereafter be governed by the revised terms and conditions. Nevertheless, banks are required to make higher provisions for such restructured standard advances as prescribed by Department of Banking Regulation[7] from time to time.

4.4.2. The asset classification for the remaining dues, which does not form a part of the restructured portion, will continue to be governed by the original terms and conditions of its sanction. Consequently, the dues from the borrower shall be classified by the lending bank under different asset classification categories viz. standard, sub-standard, doubtful and loss.

4.4.3. Additional finance, if any, shall be treated as "standard asset" and its future asset classification will be governed by the terms and conditions of its sanction.

4.4.4. With the objective to ensure that banks are proactive in extending relief to the affected persons, the **benefit** of asset classification of the restructured account as on the date of natural calamity will be available only if the restructuring is completed within a period of three months from the date of natural calamity. In the event of extreme calamity, when the SLBC/DCC is of the view that this period will not be sufficient for the banks to reschedule all the affected loans, it should immediately approach the concerned Regional Office of RBI detailing the reasons for seeking extension. Such requests will be considered on the merit of each case.

[7] DBR's Master Directions on Prudential Guidelines on Income Recognition, Asset Classification and Provisioning

4.4.5 The accounts that are restructured for the second time or more on account of recurrence of natural calamities should retain the same asset classification category on restructuring. Accordingly, for a restructured standard asset, the subsequent restructuring necessitated on account of natural calamity would not be treated as second restructuring, i.e., the standard asset classification will be allowed to be maintained. However, all other restructuring norms will apply.

4.5 Utilization of Insurance Proceeds

4.5.1 While the above measures relating to rescheduling of loans are intended to provide relief to the farmers, the insurance proceeds should, ideally, compensate their losses. In terms of orders issued by the **Department of Agriculture, Cooperation and Farmers Welfare**, the Pradhan Mantri Fasal Bima Yojana (PMFBY) has, replaced the existing schemes of National Agricultural Insurance Scheme (NAIS) & Modified National Agricultural Insurance Scheme (MNAIS) with effect from Kharif 2016. Under the scheme all agriculture loans are provided insurance cover for all stages of the crop cycle including post-harvest risks in specified instances. Farmers' details are required to be entered by banks in the unified portal for crop insurance which is available at www.agri-insurance.gov.in in order to facilitate assessment of coverage of crops insured, premiums deducted, etc.

4.5.2 While restructuring the loans in areas affected by a natural calamity, banks should also take into account the insurance proceeds, if any, receivable from the Insurance Company. They should adjust these proceeds to the 'restructured accounts' in cases where they have granted fresh loan to the borrower. However, banks should act with empathy and consider restructuring and granting fresh loans without waiting for the receipt of insurance claim, in cases where there is reasonable certainty of receiving the claim.

PROVIDING FRESH LOANS

5.1 Sanctioning of Fresh Loans

5.1.1 Once the decision to reschedule loans is taken by SLBC/DCC, pending conversion of short-term loans, banks shall grant fresh crop loan to the affected people based on the scale of finance for the crop and the cultivation area, as per the extant guidelines[8].

[8] Master circular on Kisan Credit card Scheme available @ www.rbi.org.in

5.1.2 The bank assistance in agriculture and allied activities (poultry, fishery, animal husbandry, etc.) may also be **needed** for long term loans for a variety of purposes such as repair of existing economic asset(s) and/or acquisition of new asset(s). Similarly, rural artisans, self-employed persons, micro and small industrial units, etc. in the areas affected by a natural calamity may require fresh credit to sustain their livelihood. Banks should assess the need and decide on the quantum of loans to be granted to the affected borrowers taking into consideration, amongst others, their credit requirement and the due procedure for sanctioning loans.

5.1.3. Banks shall also grant consumption loan up to ₹ 10,000/- to existing borrowers without any collateral. The limit may, however, be enhanced beyond ₹10,000/- at the bank's discretion.

5.2 Terms and Conditions

5.2.1 Guarantee, Security and Margin

5.2.1.1 Credit should not be denied for want of personal guarantees. Where the bank's existing security has been eroded because of damage or destruction by floods, assistance will not be denied merely for want of additional fresh security. The fresh loan shall be granted even if the value of security (existing as well as the asset to be acquired from the new loan) is less than the loan amount. For fresh loans, a sympathetic view will have to be taken.

5.2.1.2 Where the crop loan (which has been converted into term loan) was earlier sanctioned against personal security/hypothecation of crop and the borrower is not able to offer charge/mortgage of land as security for the converted loan, she/he should not be denied conversion facility merely on the ground of his/her inability to furnish land as security. If the borrower has already taken a term loan against mortgage/charge on land, the bank should be content with a second charge for the converted term loan. Banks should not insist on third party guarantee for providing conversion facility.

5.2.1.3 Where land is taken as security, in the absence of original title record, a certificate issued by the Revenue Department officials may be accepted for financing to farmers who have lost proof of their title such as title deed or registration certificate issued to registered share-croppers.

5.2.1.4 Margin requirements may be waived or the grant/subsidy given by the concerned State Government may be considered as margin.

5.3 Rate of Interest

The rates of interest will be in accordance with the directives of the Reserve Bank. Within the areas of their discretion, however, banks are expected to take a sympathetic view of the difficulties of the borrowers and extend a concessional treatment to calamity-affected people. In respect of current dues in default, no penal interest will be charged. The banks should also suitably defer the compounding of interest charges. Banks may not levy any penal interest and consider waiving penal interest, if any, already charged in regard to the loans converted/rescheduled. Depending on the nature and severity of natural calamity, the SLBC/ DCC shall take a view on the interest rate concession that could be extended to borrowers so that there is uniformity in approach among banks in providing relief.

OTHER ANCILLARY MEASURES

6.1 Relaxation on Know Your Customer (KYC) Norms

It needs to be recognized that many persons displaced or adversely affected by a major calamity may not have access to their normal identification and personal records. In such cases a small account based on the photograph and signature or thumb impression rendered in front of the bank official shall be opened. The above instructions will be applicable to cases where the balance in the account does not exceed ₹ 50,000/- or the amount of relief granted (if higher) and the total credit in the account does not exceed ₹1, 00,000/- or the amount of relief granted, (if higher) in a year.

6.2 Providing access to Banking Service

6.2.1 Banks may operate its natural calamity affected branches from temporary premises under advice to the concerned Regional Office of RBI. For continuing the temporary premise beyond 30 days, banks may obtain specific approval from the concerned Regional Office of RBI. Banks may also make arrangements to render banking services in the affected areas by setting up satellite offices, extension counters or mobile banking facilities etc. under intimation to RBI.

6.2.2 To meet the immediate cash requirement of the affected people, due importance may be given towards restoring the ATMs or other alternate arrangements maybe provided to avail such facilities.

6.2.3 Other measures that banks may initiate at their discretion to alleviate the condition of the affected people could be waiving ATM fees, increasing ATM withdrawal limits; waiving overdraft fees/early withdrawal penalty on time deposits /late fee for credit card/other loan instalment payments etc. and giving option to credit card holders to convert their outstanding balance to EMIs repayable in 1-2 years. Besides, all charges debited to the farm loan account other than the normal interest may be waived considering the hardship caused to the affected people.

RIOTS AND DISTURBANCES: APPLICABILITY OF THE GUIDELINES

7. Applicability of the guidelines in case of riots and disturbances

7.1 Whenever RBI advises the banks to extend rehabilitation assistance to the riot/ disturbance affected persons, the aforesaid guidelines may broadly be followed by banks for the purpose. It should, however, be ensured that only genuine persons, duly identified by the State Administration as having been affected by the riots/ disturbances, are provided assistance as per the guidelines.

7.2. The issuance of advice to the banks by Reserve Bank of India on receipt of request/ information from State Government and thereafter issue of instructions by banks to their branches generally results in delay in extending the assistance to riot-affected people. With a view to ensuring quick relief to the affected persons, it has been decided that the District Collector, on occurrence of the riots/ disturbances, may ask the Lead Bank Officer to convene a meeting of the DCC, if necessary and submit a report to the DCC on the extent of damage caused to life and property in the area affected by riots/disturbances. If the DCC is satisfied that there has been extensive loss to life and property on account of the riots/ disturbances, the relief as per the above guidelines may be extended to the people affected by the riots/ disturbances. In certain cases, where there are no District Consultative Committees, the District Collector may request the convener of the State Level Bankers' Committee of the State to convene a meeting of the bankers to consider extension of relief to the affected persons. The report submitted by the Collector and the decision thereon of DCC/ SLBC may be recorded and should form a part of the minutes of the meeting. A copy of the proceedings of the meeting may be forwarded to the concerned Regional Office of the Reserve Bank of India.

SECTION–III. Credit Flow To Agriculture-Agricultural Loans-Waiver Of Margin/Security Requirements

Keeping in view the importance of flow of credit to agriculture, in particular to the smaller borrowers, banks may waive margin/security requirements for agricultural loans upto Rs 1 lakh and in the case of agri-business and agri-clinics for loans upto Rs. 5 lakh.

CHAPTER VII: PARTICIPATION UNDER LEAD BANK SCHEME

Small Finance Banks may be invited to SLBC meetings in their respective locations. For the current year (2017-18), they will be only invitees to these meetings and would not be a part of the credit planning exercise.

Small Finance Banks will be part of the credit planning exercise from the financial year 2018-19. Accordingly, in the respective locations, they will be participating in various fora of the lead bank scheme i.e. SLBC, DLCC/DLRC and BLBC as a regular member from the first quarter of 2018-19.

Small Finance Banks may refer to the Master Circular on Lead Bank Scheme dated July 3, 2017 to obtain an understanding of the structure of the various fora and functioning of Lead Bank Scheme which is available on RBI website: www.rbi.org.in.

CHAPTER VIII: GOVERNMENT SPONSORED SCHEMES

Credit Facilities To SC/ST and Minority Communities

SFBs will become part of credit planning exercise under Lead Bank Scheme from the year 2018-19. The following Master Circulars relating to NRLM, NULM, Credit facilities to SCs/STs and Minorities will be fully applicable to SFBs with effect from April 1, 2018.

i. Master Circular – Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM) RBI/2017-18/10– FIDD.GSSD.CO.BC.No.04/09.01.01/2017-18 dated July 1, 2017
ii. Master Circular – Deendayal Antyodaya Yojana – National Urban Livelihoods Mission (DAY-NRLM) RBI/2017-18/5 – FIDD.GSSD.CO.BC.No.03/09.16.03/2017-18 dated July 1, 2017
iii. Master Circular – Credit facilities to Scheduled Castes (SCs) and Scheduled Tribes (STs) – RBI/2017-18/7 – FIDD.CO.GSSD.BC.No.06/09.09.01/2017-18 July 1, 2017
iv. Master Circular – Credit facilities to Minority Communities – RBI/2017-18/6 – FIDD.GSSD. BC.No.05/09.10.01/2017-18 dated July 1, 2017

Small Finance Banks may refer to the above Master Circulars to obtain an understanding of the schemes and the reporting mechanism prescribed thereunder. The Master Circulars are available under the following link in the website of RBI.

https://www.rbi.org.in/Scripts/BS_ViewMasterCirculardetails.aspx?did=343