

**RBI'S PRE-POLICY CONSULTATIONS  
WITH  
THE TRADE BODIES ON 22.03.2022**

INAFI India as a development network, bring to RBI the issues/concerns of financial inclusion of our constituencies comprising women SHGs, small farmers, agricultural labourers and migrant workers both from access (to the banking system) and affordability perspective.

The Revised Regulatory Framework of microfinance loans announced by RBI ticks all the boxes from “**client protection perspective**” except stipulating what constitutes usury. It builds on and strengthens the regulations put in place by the Malegam Committee of RBI. It is important for RBI to appreciate that leaving the term usury open ended would lead to different interpretations in different contexts. There is an absolute necessity from client protection perspective to draw a redline of 18% beyond which the cost of borrowing (interest plus other charges) shall be reckoned as clear usury. All the players in the financial ecosystem need to be specifically advised and any violation shall immediately attract regulatory penalties/sanctions. The harmonization of all the entities including Banks in the revised framework as also the disclosure requirements of pricing in the websites of the financial institutions is quite welcome. It is a matter of gratification that RBI is also going to make public the ultimate cost of borrowing of microfinance loans from different players. Stakeholders strongly believe that RBI would strengthen the regulatory scrutiny of microfinance loans in the financial system and more importantly enforce the revised regulatory guidelines.

**INFLATION PROOF SAVINGS/DEPOSITS:** - The vulnerable segments of poor – women and their SHGs, small farmers, etc. as mentioned above continue to experience financial fragility engendered by COVID pandemic. Together with the senior citizens, these vulnerable segments have heavy reliance on the interest earned from their savings and deposits with the banking system. It is a very critical source of not only supplementary as also survival. Currently, there is a negative rate of return from the Bank deposits given the rising inflation. RBI would do well to empathize and

respond to the plight of the millions of savers/depositors with the Banks and introduce inflation proof deposits through the Banking system.

**REINVIGORATING SHG BANK LINKAGE:** - It is a matter of disquiet that Banks are drifting away from direct lending to SHGs and increasingly seek the route of indirect lending through MFIs, thereby increasing the cost of borrowing by the SHGs. This also has a negative impact on the long term Banking relationship of the SHGs. A regulatory nudge to all the Commercial Banks to reinvigorate SHG bank linkage is the need of the hour. RBI could initiate a monitoring process to track the SHG bank linkage as part of advancing Financial Inclusion and enhance the direct lending by the Banks.