

**RBI GOVERNOR'S PRE-POLICY CONSULTATION MEETING
WITH TRADE BODIES, JAN 22, 2025
POLICY SUGGESTIONS OF INAFI INDIA**

1. POLICY/REGULATORY RESPONSE/ACTIONS: ACKNOWLEDGEMENTS

As a development network focused on connecting small and marginal farmers with banking system for affordable access to farm credit, the recent policy announcement of RBI enhancing the limit of collateral security including farm land property from 1.6 lakhs to 2 lakhs is gratefully acknowledged. This dynamic policy response would further the financial inclusion for small and marginal farmers involved in crop and animal husbandry livelihoods by providing ease of access to bank credit. This measure also reckons the imperatives of rising cost of farming particularly for the small holder agriculture.

The cracking of regulatory whip against the errant microfinance institutions in making the cost of borrowing (interest plus a slew of charges) for the poor and low-income households as usurious is highly appreciated, though it has been long in coming. Given the lending history of MFIs unremitting regulatory oversight is called for.

As the massive CFL (Centre for Financial Literacy) project has been rolled out across the rural contexts of the country, it is noteworthy to mention the prudent pragmatism of RBI in responding to operational challenges and the budgetary

constraints of the project and respond with appropriate policy measures to smoothen the implementation.

2.FINANCIAL INCLUSION THROUGH BANKING FOR/BY ALL HOUSEHOLDS

As one of the essentially critical components of the national agenda of Inclusive Growth, Financial Inclusion has become natural part of all development programmes. Following the initiatives of Jan Dhan, Director Benefit Transfer (DBT), the CFL project (Centre for Financial Literacy) has imparted a greater impetus to the process of promoting and advancing financial inclusion, in particular for excluded and indigent segments of the population. The **Priority for Bank led model of FI** has been addressing both access and affordability issues of inclusion for the five fundamental financial services – SCRIP: Savings, Credit, Remittance/Payments. Insurance, Investment and Pension plus Digital /mobile banking payment Apps, etc.

As the CFL project and other financial literacy initiatives of RBI and other financial sector regulators advance the FI agenda through Banking system, need for an institutional anchor mechanism to promote the vision of Banking for/by all households cannot be over emphasised. And the concept of Lead Bank in each district is ideally placed to play that role. What is required at this juncture is a policy tweak to repurpose the Lead Bank Offices of the Nationalized Banks to singularly focus on FI in each district with eye on SCRIPT for all households in the district.

3. RESPONSIBLE MICROFINANCE – THE APPLICATION OF DOCTRINE OF TRUST BUT VERIFY

The intent of de-regulation of Microfinance Sector has been to create an enabling environment for MFIs to go by the RBI play book with high sense of responsibility, accountability through self-regulation, both in terms of lending and recovery practices and pricing of micro credit as well. On both counts we are witness to rampant violations by good number of MFIs – while some indulge in multiple loaning to clients beyond their capacity and need, many have charged usurious interest and fees exceeding even 30%. While the recent regulatory restriction of “cease and desist” on some of the MFIs are welcome, the question arises as to why the self-regulating organizations – MFIN and Sa-DHAN (**SROs**) have not disciplined the erring MFIs and blown the whistle. It is not uncommon that SROs give in to the demands of the members who own and control the SROs. And this is not the first or isolated episode and these excesses are becoming cyclical.

Having regard to the defiant history, there is an absolute necessity for eternal surveillance and supervision at sporadic intervals with element of surprise by RBI. In this regard, the Regional Offices of RBI are better placed to do this role and take necessary regulatory actions then and there.
