

<p style="text-align: center;"><b>First Bi-monthly (2020-21) Monetary Policy Consultations</b> <b>INAFI India Policy suggestions to RBI</b></p>
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## **1. Ease of access to Bank Credit: Trusting the Agency of Small Farmers**

Typically, land holdings of small farmers do not exceed 3-5 acres and average size of majority of small farmers is around 2 acres only and consequently regardless of crops the loan size may not exceed Rs. 1 Lakh. Small farmers are of various genre – owner cultivators, tenant cultivators, share croppers, etc. They are facing untold sufferings/hardships in getting the certificate of ownership/cultivation from the village level authorities and also not able to get timely credit forcing them to go for borrowings from informal sources. In order to facilitate ease of access to bank credit RBI has been taking several progressive measures and waiver of mortgage of lands for agricultural loans up to Rs.1.6 lakhs is one such measure.

Consistent with this approach of easing the access for small farmers time is opportune to repose faith in the agency of small farmers and crop loans need to be considered by commercial banks / RRBs / Small Finance Banks on the basis of declaration of land holdings by the small farmers up to a limit of Rs. 1.6 Lakh which would cover more than 95% of the small holder farmers (without seeking land records). The bank branches during their appraisal process through discreet enquiries would be able to find out any false declarant small farmers and act accordingly. The recommendations of Internal Committee constituted by RBI in enhancing credit flow to agriculture sector (crop husbandry, animal husbandry and culture fisheries) have also been sync with our suggestion, though the Committee recommended the Banks shall insist on land records for loans upto Rs.2 lakhs for allied activities only. As most of the small farmers combine crop and animal husbandry in their farm steads for economic viability it is

prudent that land records are not insisted upon for all agriculture activities including cropping.

Those of us working with small farmers in enhancing and sustaining the livelihoods are waiting for RBI's policy pronouncement as recommended by the Committee in raising the sub target for small farmers from the existing 8% to 10% of ANBC.

## **2. Financing Small Farmers Producer Organizations (FPOs) / Farmers Producer Companies (FPCs)**

One of the key policy priority of the Government in agriculture is the support to the small farmers. Organizing farmers particularly small farmers into an institutional frame work of producers organizations / Companies has been a significant policy response of Govt. of India to make small farming viable and sustainable by bringing scale advantage, collective bargaining power, technological adoption. Public investment has been provided in the budget through grant financing the promotion of 10000 FPOs over a period of three years with an outlay of nearly 8000 crores. Access to bank credit, like for SHGs (Self Help Groups), is critical for effective and sustainable functioning of FPOs. Besides grant support for promoting FPOs / FPCs the Central Govt. (Ministry of Agri.) is also providing guarantee to loans extended by banks to the FPOs / FPCs up to limit of 1 Crore.

In fact, RBI has responded proactively with enabling regulatory frame work under priority credit dispensation – Financing FPOs / FPCs have been designated as direct credit to agriculture. The banks have not been supportive and many well-functioning FPOs / FPCs have been languishing without access to bank credit. Being an important national development agenda, a **regulatory nudge** is called for to prod the banks to reach out and finance FPOs / FPCs.

### **3. P2P lending: Going Global with Opening of the ECB window**

Thanks to RBI's regulatory framework, P2P lending has become another alternative, facile option to take small and moderate doses of credit for public at large and in particular low-income families. Many socially conscious donors / funders, family foundations / philanthropies are coming forward to lend at very soft rates or even zero cost. Unsurprisingly, popularity of platform lending is growing in tune with global trends. Given its inherent potential for being global platform, it is time that we take the next logical step to make P2P lending international. In fact, when we advocated for an enabling regulatory frame work for crowd funding in April 2015, we have sought for access to domestic as well as global sources. With a vast Indian Diaspora, the case for P2P ECB cannot be overemphasised. Prudential safeguards of loan caps both at systemic and peer levels and flow of funds through banking channel and other regulatory provisions associated with ECB could be put in place. It is suggested that loan caps could be pegged at USD 10000 or its equivalents. Being a technology platform with loans flowing through banking channels, P2P ECB loans can be tracked real time. It is time RBI takes the next logical step of opening ECB window for P2P lending.

### **4. Mis-selling of financial products by banks:**

Of late, Banks have been aggressive in selling insurance and mutual fund products. One negative fallout has been coercive linkage of granting loans with the marketing of financial products at the branch level. Instances of selling inappropriate micro insurance products instead of PM social security scheme are not few, to women members of SHGs. So also, the Systematic Investment Plans (SIPs) are disguised as Recurring Deposits (RDs) and marketed to their unsuspecting customers.

Given the cultural context of India, the psyche, risk aversion of majority of population, Bank is seen as an ultimate symbol of safety and security for the people's money. RBI need to recognize this and one wonders Banks should be asked to have singular focus on **"pure banking"** – taking deposits, giving loans and facilitating/smoothing the payments.

#### **5. Senior citizens seeking solace for their hard-earned money:**

Save a small number of senior citizens who are well informed, well endowed with high risk appetite, large segment seeks the comfort of safety, security and certainty of decent returns from their deposits with the Banks. They are either blissfully unaware or fight shy of the financial markets with multiple products being bombarded with less and less transparency and disclosure.

With the falling interest rates for bank deposits in tune with the monetary policy, the decent living of senior citizens is already affected/threatened. A differentiated inflation indexed interest yields for Bank deposits is an urgent policy priority for RBI to promote the geriatric financial wellbeing.

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