

**RBI GOVERNOR'S PRE-POLICY CONSULTATION MEETING  
WITH TRADE BODIES, 2022  
POLICY SUGGESTIONS OF INAFI INDIA**

As VUCA is at work in the economy, (triggered more by energy). we welcome the initiatives/steps taken by RBI to rein in inflation. As the purchasing power is getting eroded, the painful impact is felt more by vulnerable segments of the population (largely the constituency of INAFI India) not to speak of senior citizens depending on retirement corpus placed with the banks. The yield of bank deposits is not rising in commensurate with the recent hikes in repo rate while it went down when the repos were lowered by RBI. This is a larger public issue which RBI must have been seized of and would like to address with a sense of urgency.

**Micro credit – cost of borrowing from MFIs continues to be a matter of concern:**

With harmonization of regulatory framework among the Regulated Entities (REs) coupled with deregulated interest regime, it is incumbent on all REs as also non-RE MFIs to charge fair interest and other charges/fees, in any case the total cost of borrowing not exceeding the 18% (all-inclusive cost). This has been belied as we do the ground-truthing and the cost of borrowing from many MFIs continued to be in excess of 24% (all-inclusive cost). The SROs are expected to play the crucial role of watchdog with disclosure of cost of borrowing in their website, besides public disclosure of cost of borrowing by the MFIs itself. Further, SROs have not been effective in ensuring that MFIs are not charging usurious interest rate. Even after six months of the advent of the revised Microcredit Regulatory Framework, the two SROs have not complied with the disclosure requirement and it is time RBI steps in as envisaged in the revised framework and make the disclosure on cost of borrowing. Cost of borrowing is a livelihood issue as it directly impacts financial and economic well-being.

**Rating- an anathema in the simple microcredit ecosystem of MFIs:**

Despite the regulatory advice that rating is not mandatory by delinking the risk weights viz-a-viz credit exposure, many banks continue to insist and rely on credit rating of MFIs which adversely affects, in particular, the small MFIs with not for profit character. This is dampening and denying credit to many small MFIs. Banks will do well to go by their comprehensive due diligence/appraisal

rather than relying on rating to take a call on providing credit lines to MFIs. We seek RBI intervention urgently.

**Policy compulsion to become member of SRO in the micro credit sector:**

Many of smaller MFIs (including not-for-profit) are facing many strange situations when they approach the banks for credit lines. They have been asked to become member of SRO in MF sector to become eligible to seek loan from the respective banks. For many MFIs, SRO themselves remain suspect when it comes to protection of micro credit clients. Furthermore, the choice of becoming a member of SRO should be of free will and rest with the MFIs and there cannot be any compulsion on whatever grounds to become a member of SRO. RBI would do well to address this aberration with the sense of urgency and advise banks suitably.

**Policy support to the non-profit ecosystem of MFIs:**

Micro credit is not charity nor it should be crass commercial. With this intent, the non-profit ecosystem of MFIs are slowly and steadily growing. By its very nature and design, it's focus is on reaching more clients rather than building portfolio and profits. The strength of the non-profit ecosystem lies in the social capital of SHGs and similar micro entities and their savings rather than equity from within and without.

As such, the conventional norms of lending such as debt equity ratio, leverage ratio, etc. would not be appropriate and dampens the expansion of the non-profit ecosystem which are more beneficial for the microcredit clients. As the banks are going by a formal policy directive in lending, it would be in the fitness of things, if RBI could encourage the Banks to promote non-profit ecosystem of MFIs with unorthodox lending ways.

**Reinvigorating SHG Bank linkage:**

Banks, of late, are moving away from SHG linkage towards NBFC/MFIs who are largely do on-lending to **individual members of the SHG group (rather than group itself)**, and the collateral damage is done - weakening the SHG concept as savings and credit through the SHG is what sustains and strengthens SHG eco-system. Slowly but surely, micro credit extended by Banks as part of the retail loan portfolio is on the decline, whereas, NBFC/MFIs increasing their share of the micro credit market. This is not a positive sign and Banks are to be impressed upon to give primacy to SHG Bank linkage.