

MFI SECTOR URGES RBI BACKING FOR EMERGENCY CREDIT SUPPORT

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Reeling under the impact of the second wave of the pandemic, the microfinance sector has reached out to the Reserve Bank of India (RBI) for support, including an emergency credit line and creating awareness among State governments on ill-effects of loan waivers.

In a letter to the RBI, Sa-Dhan, representing the sector, has sought emergency credit of up to 25% of their outstandings with the lending banks to enable micro-finance institutions (MFIs) to mobilise Rs. 15,000 crore.

It also sought a special liquidity facility of at least Rs. 15,000 crore through NABARD and SIDBI. "At least 40% of funds under this may be earmarked for MFIs with portfolio below Rs. 500 crore."

It also recommended the introduction of a partial Credit Guarantee Scheme 3.0 as it may help boost confidence of banks in the 'present uncertain times' to lend to the microfinance sector, especially small and mid-size MFIs with relatively lower credit ratings.

The RBI should emphasise to the Union and State governments the role of the sector in financial inclusion and highlight the need to categorise it under 'essential services' without imposing curbs on operations that affect clients as well as MFIs.

"RBI may reiterate to State governments the ill-effects of loan waiver announcements and its implications on credit discipline and flow of funds to the marginalised sections," it added.

Other recommendations include assessment of MFI cash flow by banks and developmental finance institutions and providing them moratorium or restructuring support for 6-12 months .

The RBI must highlight the need to categorise the sector under essential services

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