GOVERNMENT OF INDIA

MINISTRY OF FINANCE

DEPARTMENT OF FINANCIAL SERVICES

RAJYA SABHA

UNSTARRED QUESTION NO. 1828

ANSWERED ON TUESDAY, 5th AUGUST, 2025/ 14 SRAVANA 1947 (SAKA)

FINANCIAL LITERACY FOR RURAL MICROFINANCE BORROWERS

1828 SHRI SANJAY SETH:

Will the Minister of FINANCE be pleased to state:

(a) the measures undertaken by the Ministry to ensure better financial literacy among microfinance borrowers in rural areas;

(b) the plans to balance ease of credit access with borrower protection under the current NBFC and microfinance regulatory framework;

(c) the need to periodically revise the interest rate cap guidelines for NBFC-MFIs in light of market fluctuations;

(d) the role envisaged for Self-Regulatory Organizations (SROs) in enhancing compliance among NBFCs; and

(e) the data from credit bureaus being utilized to prevent over-indebtedness among microfinance borrowers?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI PANKAJ CHAUDHARY)

(a) Financial literacy and awareness of rural population, including microfinance borrowers, is promoted through following interventions which are supported by National Bank for Agriculture and Rural Development (NABARD) and Reserve Bank of India (RBI):

i. NABARD has been providing financial support for conduct of Financial and Digital Literacy Camps through rural bank branches and Financial Literacy Centres (FLCs) in areas with limited awareness. These programmes entail generating awareness on various banking products, social security schemes of Government of India, digital banking, mobile banking, cyber security, etc.

ii. Centre for Financial Literacy (CFL) Project has been initiated by RBI since 2017 with an objective to adopt community-led innovative and participatory approaches to financial literacy. A total of 2,421 CFLs have been set up across the country as on March 31, 2025 with one CFL covering three blocks on an average

iii. NABARD also sponsors Village Level Programmes (VLPs) which are conducted with the support of banks and State Rural Livelihoods Missions (SRLMs) for a better interface between bankers and Self-Help Groups (SHGs) to facilitate opening of SHG accounts, their credit linkage and regular loan repayments, thereby facilitating financial inclusion at the village level.

(b) The following steps have been taken by RBI for enabling ease of access to credit (in the microfinance sector):

i. The definition of microfinance loan has been simplified and various quantitative restrictions on loans given by NBFC-MFIs have been removed, including limits on loan amount in a particular cycle and minimum tenure for loans over a particular threshold. Presently, all collateral-free loans given to a household having annual household income up to ₹3,00,000 are considered as microfinance loans.

ii. Erstwhile requirement of providing minimum 50% loans for income generation purposes has been dispensed with, considering the need of credit for medical, educational and income smoothening purposes.

Further, RBI has taken following steps to enhance borrower protection:

i. A ceiling of 50% on the monthly loan repayment obligations as a percentage of monthly income has been prescribed to protect customers from over indebtedness.

ii. RBI has issued specific guidelines for recovery processes which has to be followed by REs which ensure protection to the borrowers against harsh recovery methods. REs are required to have a dedicated mechanism for redressal of recovery related grievances.

(c) RBI has informed that interest rates charged to microfinance borrowers by all the REs, including banks which had access to low-cost funds, hovered around the regulatory ceiling introduced by RBI from time to time. Hence, on March 14, 2022, a revised principle-based regulatory framework for microfinance loans was issued which deregulated the interest rates on such loans with an intent to let the competitive forces of the market bring down interest rates over a period of time. Hence, REs are required to have a board-approved interest rate policy with clearly delineated components. Further, the RBI's regulations prescribe that interest rates and other charges shall not be usurious.

(d) SROs for the microfinance sector, *viz*. Sa-Dhan and Microfinance Industry Network (MFIN), play a major role in strengthening compliance culture among their members viz. Micro Finance Institutions (MFIs) including NBFC-MFIs and also provide a consultative platform for policy making. One of the functions of SROs is continuous monitoring of the activity and level of compliance of their members with the regulations. Through constant interaction with the Regulator and submission of periodic/ad-hoc information, the SROs provide insights on the industry practices including non-compliances observed which help appropriate regulatory and supervisory interventions.

Further, Sa-Dhan and MFIN, have issued guardrails for their members, *inter alia,* capping the total indebtedness of a borrower as well as limiting the number of lenders that can give loans to a single borrower. Such interventions aid in reducing the indebtedness of the borrowers.

(e) RBI has issued guidelines on credit information reporting by credit institutions (CIs) to credit information companies (CICs). CIs are required to submit the income and credit data pertaining to microfinance borrowers to CICs. Apart from household income, the details of all the loans availed by such borrowers are published in the credit information report. CIs utilise such information for assessing the indebtedness of the borrowers thereby preventing over-indebtedness by capping repayment obligations within the regulatory limit of 50% of monthly household income.

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