

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:853

ANSWERED ON:25.02.2011

REFORMATION OF MFIS

Bhujbal Shri Sameer ;Das Gupta Shri Gurudas;Lingam Shri P.;Owaisi Shri Asaduddin;Paranjpe Shri Anand Prakash;Yadav Shri Ranjan Prasad

Will the Minister of FINANCE be pleased to state:

- (a) whether the Y.H. Malegam Committee appointed to look into the functioning of Micro Finance Institutions(MFIs) has submitted its report;
- (b) if so, the details of the main recommendations of the committee and if not, the reasons therefor;
- (c) the details of the recommendations accepted by the Government alongwith the implementation status of such accepted recommendations;
- (d) whether the Government of Andhra Pradesh has requested the said committee to bar MFIs from raising funds from stock markets and private equities;
- (e) if so, the details thereof alongwith the Committee`s decision on such request; and
- (f) the other steps taken/being taken by the Government to regulate the functioning of MFIs?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (Shri Namo Narain Meena)

(a) to (c): The Malegam Committee appointed to look into the functioning of MFIs has submitted its Report on January 19, 2011 to Reserve Bank of India (RBI). The Committee, inter-alia, recommended the following:-

(i) Creation of a separate category of Non-Banking Financial Companies (NBFCs) viz. Non Banking Financial Companies (NBFC)-Micro Financial Institutions (MFIs) to be regulated, and supervised, by the RBI.

(ii) To qualify as a NBFC-MFI, the NBFC should be `a company which provides financial services pre-dominantly to low-income borrowers, with loans of small amounts, for short-terms, on unsecured basis, mainly for income-generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks` and which further satisfies the regulations specified in that behalf.

(iii) Continuation of priority sector lending status to bank loans to these separate category of NBFC-MFIs.

(iv) Exemption of such NBFC-MFIs from the provisions of State Money Lending Laws, etc.

(v) The NBFC-MFI will hold not less than 90% of its total assets (other than cash and bank balances and money market instruments) in the form of qualifying assets.

(vi) There are limits of an annual family income of Rs.50,000 and an individual ceiling on loans to a single borrower of Rs.25,000.

(vii) Not less than 75% of the loans given by the MFI should be for income- generating purposes.

(viii) There is a restriction on the other services to be provided by the MFI which has to be in accordance with the type of service and the maximum percentage of total income as may be prescribed.

(ix) An average `margin cap` of 10 per cent for MFIs having a loan portfolio of Rs.100 crore and of 12 per cent for smaller MFIs. An interest cap of 24% on individual loans of MFIs.

(x) In the interest of transparency, an MFI can levy only three charges, namely, (a) processing fee(b) interest and (c) insurance charge.

The Committee has also made a number of recommendations to mitigate the problems of multiple-lending, over borrowing, ghost borrowers and coercive methods of recovery. These include:

(i) A borrower can be a member of only one Self- Help Group(SHG) or a Joint liability group(JLG).

- (ii) Not more than two MFIs can lend to a single borrower.
- (iii) There should be a minimum period of moratorium between the disbursement of loan and the commencement of recovery.
- (iv) The tenure of the loan must vary with its amount
- (v) A Credit Information Bureau has to be established
- (vi) The primary responsibility for avoidance of coercive methods of recovery must lie with the MFI and its management
- (vii) The Reserve Bank of India must prepare a draft Customer Protection Code to be adopted by all MFIs
- (viii) There must be grievance redressal procedures and establishment of ombudsmen
- (ix) All MFIs must observe a specified Code of Corporate Governance.

While reviewing the proposed Micro Finance (Development and Regulation) Act, the Committee has recommended that entities governed by the proposed Act should not be allowed to do business of providing thrift services.

(d) & (e): The Government of Andhra Pradesh in its written submission to the Malegam Committee dated December 16, 2010, had inter alia, requested that 'MFIs shall not be allowed to go for Initial Public Offerings (IPOs) as they have to generate more and more profits defeating the very purpose of microfinance'. The Malegam Committee, vide Para 21.4(b) of its Report has recommended that MFIs should be encouraged to issue preference capital with a ceiling on the coupon rate and this can be treated as part of tier II capital subject to capital adequacy norms.

(f): The Reserve Bank of India has placed the Report in the public domain, and based on the feedback received from all stakeholders, it will take a considered view on the sector. Further, the Department of Financial Services will consider introducing a Micro Finance (Development & regulation) Bill after taking into account the views of RBI on the Committee's recommendations.