

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2562
ANSWERED ON:11.03.2011
FUND RAISING PLANS OF MFIS
Thamaraiselvan Shri R.

Will the Minister of FINANCE be pleased to state:

- (a): whether Government proposes to review the fund raising plans of some of the Micro Finance Institutions working in the country;
- (b): if so, the details thereof;
- (c): whether the Government desire the unbridled growth of micro finance institutions in the country;and
- (d): if so, the details thereof and if not, the reasons therefor?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (e): In view of the recent developments in the Microfinance sector particularly in Andhra Pradesh, the Reserve Bank of India (RBI) had in October 2010 set up a Sub-Committee to study the issues and concerns of the micro finance sector including ways and means of making interest rates charged by the micro finance institutions reasonable. The Sub Committee was headed by Shri Y.H. Malegam, a senior member of the Central Board of Directors of RBI. The Sub-Committee submitted its report in January, 2011.

The Committee made several, recommendations that included recommendations on the sources of funds for MFIs.

The Committee has recommended creation of a separate category of NBFCs operating in the microfinance sector to be designated as Non Banking Financial Corporations-Micro Finance Institutions (NBFC-MFIs). Bank lending to NBFCs which qualify as NBFC-MFIs will be entitled to `priority lending` status. For monitoring compliance with regulations, the Sub-Committee has proposed a four pillar approach with the responsibility being shared by (a) MFI (b) industry associations (c) banks and (d) the Reserve Bank.

The Committee has also among other things recommended that there should be a `margin cap` of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs.100 crores and a `margin cap` of 12% in respect of MFIs which have an outstanding laon portfolio at the beginning of the year of an amount not exceeding Rs.100 crores. There should also be a cap of 24% on individual loans.

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

The Reserve Bank of India has placed the Report in the public domain, and based on the feedback received from all stakeholders, a considered view will be taken by the RBI.

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.