GOVERNMENT OF INDIA

MINISTRY OFFINANCE

RAJYA SABHA

QUESTION NO22.02.2011

ANSWERED ON

REPORT OF MALEGAM COMMITTEE ON MFIS

52 Shri D. Raja

Will the Minister of COALFINANCE be pleased to state :-

(a): whether it is a fact that T.H. Malegam Committee on Micro Finance Institutions (MFIs) has submitted its report making valuable suggestions for reforming MFI Sector; and

(b): if so, the details thereof and Government’s decision thereon?

ANSWER

The Minister of State in the Ministry of Finance

(Shri Namo Narain Meena)

(a) & (b): 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, inter-alia, recommended the following:-

(i) Creation of a separate category of NBFCs viz. NBFC-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 categories 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 Sub-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 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 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.