

Standing Committee Report Summary

The Micro Finance Institutions (Development and Regulation) Bill, 2012

The Parliamentary Standing Committee on Finance (Chairperson: Mr. Yashwant Sinha) submitted its 84th report on the Micro Finance Institutions (Development and Regulation) Bill, 2012 on February 13, 2014.

Background: The Bill was introduced by the Ministry of Finance in the Lok Sabha on May 22, 2012, and seeks to establish the Reserve Bank of India (RBI) as the regulator for all entities providing micro finance services. Currently, RBI regulates micro finance services provided by Micro Finance Institutions (MFIs) registered as Non-Banking Financial Institutions-MFIs (or NBFC-MFIs). The Ministry had earlier introduced the Micro Financial Sector (Development and Regulation) Bill, 2007, which lapsed with the dissolution of the 13th Lok Sabha.

Main observation and recommendation: The Committee stated that the Bill was unacceptable in its present form, and urged the Ministry to hold wider consultations and review its fundamental proposals.

- Since this Bill seeks to bring unincorporated MFIs, which are few in number, under RBI's ambit, the Committee suggested that the Bill be reconsidered and instead the states be allowed to bring unincorporated MFIs under the ambit of state money lending laws.
- Given the lack of concurrence of RBI, the proposed regulator, with the Bill, the Committee suggested the formation of an independent regulator, which will have representatives of all concerned agencies, like RBI, NABARD, etc.
- The Committee felt that the government should persist in pursuing the bank-led model for financial inclusion. Additionally, the government should consider statutory rights to bank accounts.

Services and Affordability:

- **Definition of MFIs:** The Committee noted that the definition of MFIs excludes Regional Rural Banks, etc which already provide services at the grassroots level.
- **Micro-credit:** The Bill provides scope for lending to other sections of society than just poor/weaker sections. In addition, it does not bind RBI to specify

the margins for interest rate, which may cause interest rates to become very high.

- **Collection of thrift:** The Bill still permits MFIs to accept deposits. The Committee noted that RBI was against the collection of deposits ("thrift") by MFIs since it would put depositors at risk in case of default by the MFIs.
- **Pension and insurance Services:** The Bill includes pension and insurance services in the definition of "micro-finance services". The regulators for insurance and pensions have stated that if pension and insurance schemes are included in the ambit of micro-finance services, then their regulation should be left to the respective regulators. The Committee asked the ministry to address these concerns.

Structure proposed by the Bill:

- **Micro Finance Councils:** The constitution of Micro Finance Councils at the national, state and district level is not mandatory in the Bill. The Committee felt that this makes the achievement of the objective uncertain.
- **Conflict of jurisdiction:** The Bill provides for both the RBI and central government to make rules regarding the working of MFIs. The Committee felt that this would lead to overlap of jurisdictions.
- **National policy on financial inclusion:** Financial inclusion is being pursued in an ad-hoc manner and no national policy has been formulated. The Committee felt that formulation of a national policy is imperative.
- **Studies and consultation:** No study has been done to evaluate and replicate successful schemes of state government for achieving financial inclusion. In addition, only three state governments participated in formulation of the Bill.
- **Micro finance crisis in Andhra Pradesh:** The suicide of several micro-finance borrowers in 2010 was caused by over-indebtedness and coercive methods of debt collection adopted by MFIs. The Bill is silent on dealing with these issues, and the Committee felt that adequate measures should be provided in the Bill.

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