

Microfinance: Govt plans to bring Bill in LS soon

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New Delhi: With the growing importance of microfinance, the Government is planning to reintroduce the **Micro Financial Sector (Development and Regulation Bill)** in the current session of the **Lok Sabha**. The Bill, originally introduced in the Lok Sabha on March 20, 2007 provides a formal statutory framework to the players. The objectives of the Bill are orderly growth of the microfinance sector, easy access of microfinance to the rural and disadvantaged sections and regulation of **micro finance institutions (MFIs)**. The Indian microfinance sector is characterised by the presence of a large number of players consisting of **non-banking financial companies (NBFCs)**, cooperative societies and not-for-profit companies. All of which, are scattered across the length and breadth of the country.

The Bill chooses **National Bank for Agriculture and Rural Development (Nabard)** for the dual function of development and regulation, why Nabard is chosen is not clear, probably because the Bill was drafted with inputs from Nabard. However, one thing is evident; Nabard played an important role in aligning bank credit with self help groups (SHGs) and protected the microfinance sector in its nascent stage. Therefore, this may be one of the reasons why Nabard has become a favourite with the Finance Ministry.

The Bill seeks to set up Microfinance Development Council in Nabard and create a Micro Finance Development Fund. At the same time, the Bill also defines the eligible classes for micro-finance. Considering all this, the Bill has to be carefully chalked out so as not to choke the sector which is starting to bloom. The biggest problem, however, the experts say is that even if the priority sector lending status is revoked, it will lead to banks lending to MFIs at higher interest rates which they would further lend to the last mile borrowers at a much higher rate. The fact that microfinance providers are registered under different laws with different regulators poses its own problems. Nabard and Finance Ministry are struggling with various questions. Over the past couple of months, both have been inviting comments to the Draft Micro Financial Sector (Development and Regulation Bill).

Microfinance experts say that last time the Bill failed to become an Act because the industry was divided over the bill. It was not clear whether the sector should have its own legislation or be governed by same norms as banks and NBFCs. At this point, experts suggest that policymakers and the Nabard should make sure that there are no fastidious guidelines but all microfinance providers should register with the Nabard and file their returns which will be like general information-sharing and nothing that would be suffocating the sector.

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