

Micro Finance Industry

Regulations and Perspectives

2011



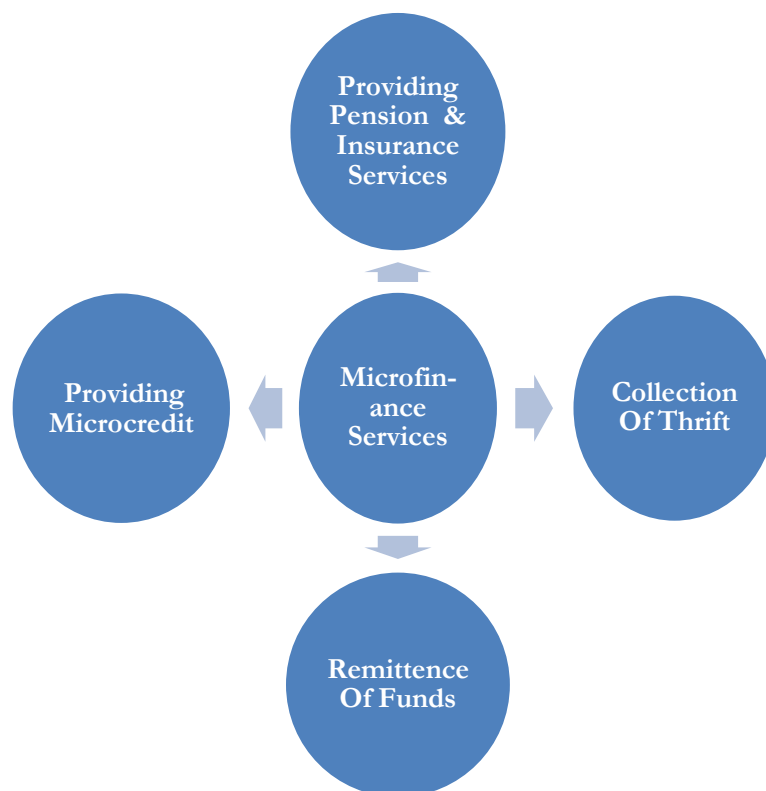
The Microfinance Institutions are facing radical and massive regulatory reforms. The uncertainty facing this industry is not something that is welcoming for the rural households who mostly rely on these forms of financing for their needs.

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THE MICRO FINANCE INSTITUTIONS (DEVELOPMENT AND REGULATION) BILL

(A) Definition:



(B) Registration:

- MFI will have to register with the RBI within three months of the commencement of the Act.
- NBFC, if indulge in Microfinance Services, has to registered itself with RBI.
- A systematically important MFI (as per its balance sheet) shall convert into a company registered under company Act, 1956 within 6 months from its balance sheet date.

(C) RBI check points:

- Management Character-It should not be in the interest of Clients availing Microfinance Services.
- Applicant for the MFI has Net Owned Fund created out of the contribution to Capital, Reserve and Grants.
- Applicant should engage in the promotion and development of financial inclusion by microfinance services.

(D) A **systematically important Microfinance Institution** certified by the Statutory Auditor about the following:

- Asset pattern.
- Total number of clients.

Submit this certification to RBI within one month from the balance sheet date to recognise as systematically important Institution.

Comply with any directives by Reserve Bank of India like following:

➤ **Reserve, Accounts, Audit & Return:**

- Every registered MFI create a Reserve Fund from the profit of its profit and loss account before the declaration of any dividends or surplus utilise for any other purpose.
- Appropriation for any amount of sum from the Reserve Fund should be intimated to Reserve Fund within 21 days from the date of appropriation.
- Financial statements must be audited from the qualified person approved by the Reserve Bank at the end of each financial year.
- Within 90 days of the enactment of this Act every MFI file the return containing particulars of its activities.

➤ **Margin to be maintained:** RBI will have sweeping powers to regulate lending rates and margins besides fixing prudential norms.

- MFI shall obtain a certificate that margin available to and avail by the MFI does not exceed as specify by the RBI and always maintain the margin as specified by the RBI by regulation from time to time.

➤ **Inspection:**

- RBI can inspect any time and the inspecting authority shall submit a report to the RBI in respect of the inspection made by it.

➤ **Power to Central Government:**

- The Central Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act.

➤ **Power to Reserve Bank:**

- To file for winding up petition: The Reserve Bank may cancel the certificate of registration granted to a micro finance institution if such micro finance institution, fails to comply with directives of Reserve Bank, ceases to carry on the business of providing micro finance services or has failed to comply with any of the conditions subject to which the certificate of registration has been granted to it or fails to submit or offer for inspection its books of accounts.
- Setting or facilitating the sector related benchmarks and performance standards pertaining to methods of operation, methods of recovery, management and governance including model codes for conduct of business of micro finance institutions.

- Facilitating the development of credit rating norms or rating norms for other purposes for micro finance institutions.
- Specifying the form and manner of books of account to be maintained by micro finance institutions.
- Power to issue directions to micro finance institutions.
- Specify the minimum net-worth of micro finance institutions considering their size of operations and other relevant parameters.
- Powers of Reserve Bank to impose Penalty.
- Power to delegate the authority to any of its power to any National Bank related to any MFI by issue of a notification in the Official Gazette.

The Reserve Bank may, in consultation with the Micro Finance Development Council and the State Advisory Councils, if deemed necessary, appoint as many Micro Finance Ombudsmen for the purpose of redressal of grievances.

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