Competitive Exams: Current Affairs 2011: T H Malegam Committee

T H Malegam Committee

The T H Malegam committee on microfinance institutions MFIs has made valuable suggestions that are contextually significant.

With an estimated Rs. 22, 500 crore lent to nearly 2.7 crore borrowers, MFI sector seemed to have become a mainstream financial activity. Yet in a matter of months, the fortunes of the industry changed drastically. In Andhra Pradesh especially, there were complaints of usurious lending, coercive recovery procedures, and exploitation of the poor. It did not help the whole body of MFIs that a few of them suffered a serious image problem. Having converted themselves into for profit organisations, these institutions adopted a corporate model, declared huge dividends, and paid handsome salaries to their promoters and employees. The State government, through an ordinance, required all the

MFIs to register with the district authorities and avoid coercive and multiple lending practices.

In one of its key recommendations, the Committee calls for the creation of a separate category of non-banking finance companies (NBFCs) covering the microfinance sector, to be designated NBFC-MFI. The MFIs, which will be accorded priority lending status, should provide financial services predominantly to low income borrowers, making available small loans for short-terms and on an unsecured basis, mainly for income generating activities. The repayment schedules will be more frequent than those offered by banks.

Obviously, regulation of what has been largely an unregulated financial activity will succeed only if it is accompanied by clear guidelines that are easy to comply with:

It is here that some critics find fault with the Committee report. For instance, the recommendation for a cap on interest rates for individual loans at 24 per cent, they say, is impractical and fails to take account of the ground realities of the business. Besides, a large part of the MFI loans have been for consumption purposes and therefore to ask these institutions to henceforth lend primarily for productive purposes might be unrealistic.

The suggestion for imputing greater transparency in the regime of lending charges is unexceptionable. Overall, there is no doubt that a vast majority of the MFIs would acquire greater credibility and benefit from the new regulations, very much like the deposit-taking NBFCs, which came under the purview of the RBI more than a decade ago.

Courtesy: The Hindu and Times of India