

Round Table on Malegam Committee Report

7th April 2011, Jaipur



Centre for microFinance

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Background:

Microfinance Institutions have emerged as an important stakeholder in the microfinance sector in lending to the poor. The advent of MFIs in the Microfinance sector appears to have resulted in a significant increase in outreach and the credit made available to the sector. Between 2007 and 2010, the number of outstanding loan accounts serviced by MFIs is reported to have increased from 10.04 million to 26.7 million and outstanding loans from about Rs. 3800 crores to Rs. 18,344 crores. The incessantly flourishing MFI industry providing credit to the doorsteps of the poor has however also been correlated with excessively high interest rates, use of coercive methods for recovery, number of suicides by credit beneficiaries etc. It was alleged that in Andhra Pradesh (and later in other places as well) many MFI clients committed suicides because of high handedness of MFI staff to recover the loans. This led the State Government of Andhra Pradesh to enact the AP MFI ordinance Act 2010 which had suddenly put brakes to the expanding MFI industry. The provisions of the ordinance requires that each MFIs to register themselves with District administration, to keep records of all their clients, not to give loans to SHG members if they have already taken loan from SHGs (to control over indebtedness) without prior permission of district collector and so on. As a result repayment of all MFIs in AP almost came to halt. As more than 50% of MFI exposure is in AP alone, the business of MFIs got adversely affected. Banks and SIDBI have about Rs. 18,000 crores exposure to MFIs, which came to risk in the present circumstances. Based on the above mentioned development, Reserve Bank of India had set up a committee of its board members under Chairmanship of Mr. Y H Malegam to review the definition of 'microfinance' and 'Micro Finance Institutions (MFIs)' for the purpose of regulation of non-banking finance companies (NBFCs) undertaking microfinance by the Reserve Bank of India and make appropriate recommendations. The Malegam Committee has submitted its report and RBI is seeking feedback on the report from all concerned.

In this context, Centre for microFinance (CmF) had organized a Round Table on Malegam Committee Report on 7th April 2011 at Hotel Clarks' Amer in Jaipur. The objective of this conference was to develop an in depth understanding on the report and discuss the critical issues raised in this Committee Report. The outcome of the conference will be shared with RBI and Government of India for consideration. Mr. Y.H Malegam, chairman of the committee was the key speaker of the round table. Prof. V.S. Vyas (Member, Economic Advisory Council to the Prime Minister), Dr. Anil Khandelwal (Ex- CMD Bank of Baroda & Chairman Centre for microFinance), Mr. Y.C Nanda (Ex Chairman, NABARD) were the other eminent speakers. The event witnessed overwhelming participation from different stakeholders of the microFinance sector, notably top officials of SIDBI, NABARD, commercial and nationalized banks, Non Governmental Organizations, Microfinance institutions and research organizations.

Inaugural Session:

The Inaugural session started with Dr. Anil Khandelwal, Chairman CmF welcoming the participants to the event. Dr. Khandelwal gave a brief background of the Malegam Committee Report. He said that the Committee Report is balanced and has practical tinge. However there is scope of improvement and thereby requested everybody to contribute to the discussions. Dr. Khandelwal further shared that the basic objectives of the round table are to:



- To provide a platform for all concerned stakeholders to discuss and debate on the critical recommendations and its implications on the sector keeping poor people at the centre;
- To provide a balanced feedback to RBI which may help in formulating appropriate policy for the microfinance sector.

Mr. Y.C. Nanda, Former Chairman NABARD addressed the participants and stressed on looking the report in light of the context or specific mandate of the committee. The need for regulation has been felt strongly by the industry as well as the Government of India since long. However, RBI was not very comfortable with regulation in the past. Mr. Nanda further shared that major chunk of funding in the form of debt for MFIs comes from Priority sector lending of banks, hence it is very important for RBI to step in and regulate the sector.

Mr. Brij Mohan, Former Executive Director SIDBI, raised critical issues like the ability of MFIs to survive in light of lowered rate of interest. Instead of creating exclusions by defining poor households through limit of annual income he suggested that a better method of reaching out to the poor would be by making 70% of their clients comprising of SC/ST/OBC population compulsory. Furthermore, Rs. 25,000 cap on the loan amount is a good way of discouraging multiple borrowing. However, he pointed out that the credit need of the poor increases in successive cycles as loans are required for productive assets for which the cap of Rs 25,000 might be restricting. In such cases a system of appraised loans needs to be put in place. Mr. Mohan further shared that Rs 15 crores equity is too high for new entrants MFI and it should be kept around 5-7 crores. In the interim period this should not apply to existing NBFCs. Mr. Brij Mohan also expressed the need for a Client Redressal System.

Address of Mr. Y.H. Malegam- Chairman, Malegam Committee:

Mr. Y.H. Malegam briefed the participants about the various recommendation of the report. Findings of different reports and social impact of Grameen Bank have been included to make the report more comprehensive, said Mr. Malegam. He mentioned that during the study though the impact of microfinance on micro business was apparent, its impact on poverty, social well being, education etc. still remains a grey area.



Elaborating on the committee report, he said that the being a part of priority sector lending regulatory framework is very essential to ensure that money goes to targeted section of people. To support an effective enforcement, a good system needs to be in place. The sector comprises of SHG-Bank linkage model (58%), NBFC-MFIs (34%) and the rest (8%) includes trust and societies. Mr. Malegam said that it is also important to regulate the 8% which can be done by NABARD.

The report has recommended 75% of loans to be devoted exclusively for income generating activities as MicroFinance is mainly aimed at poverty alleviation. Regarding fixing a cap on the rate of interest, a responsible rate of interest, which is affordable by the borrower and sustainable by the lender has been adopted. To ensure transparency in the interest rates charged by MFIs and parameters like processing fee, committee has recommended that only two charges apart from insurance premium should be collected from borrowers.

Mr. Malegam also raised the issue of security deposits that MFIs make to banks. In this practice there is no guarantee that the deposit, that the MFI is making, is not borrowed from some other institution. Regarding multiple lending and coercive recovery he observed that even in JLGs which are perceived as effective mode of recovery, peer pressure can drive an individual's to extreme humiliation and in a lot of cases to commit suicide. MFIs should give loans to individuals also and not just JLGs. He said that consumer protection can be addressed through Client Protection Code to be formulated by the regulator. Mr. Malegam also commended the role of CmF as a resource agency in strengthening of the sector.

Open Forum:

Mr. Jaipal Singh, Executive Director, CmF made a consolidated presentation of the report with selected issue of concern of the sector as a whole. After his presentation, the house was open for discussion with special emphasis on following points:

1. Regulation related issues
2. Interest rate & margin capping
3. Multiple lending and over borrowing
4. Implication on small and local MFIs
5. Impact on community based MicroFinance



Summary of Discussions:

The statement in bold what actual reference no. is what committee has said in the report while following statements were the suggestions made in the round table by participants. Name of participants is also given who given the respective suggestions.

5.9. b. i – the loan is given to a borrower who is a member of a house hold whose annual income does not exceed Rs 50,000

- The definition of annual household income (of Rs 50,000 per year) is inadequate, especially for urban and semi urban areas. It should be Rs. 75,000 or Rs. 1 lakh

Muralidhar Rao, CGM, NABARD, Anurag Agarwal, Director, Intellectap,
Brij Mohan Ex- ED, SIDBI, Shri. Vipin, CEO, Access

- MFIs can also be advised that 70% of their clients should be SC/ST/OBC so that the excluded poor can be covered.

Brij Mohan Ex- ED, SIDBI

Response by Mr. Malegam: This is an area which can be further looked upon Putting a limit is an indication to give loan to the poor increasingly.

5. 9. b. ii- the amount of loan does not exceed Rs 25,000 and the total outstanding indebtedness of the borrower including this loan also does not exceed Rs 25,000.

- For certain income generating activities Rs 25000 may not be adequate. Also, the loan requirements of the clients are increasing in lieu of livelihood financing and putting a cap on the maximum amount would encourage wrong practices like multiple borrowing from informal sources.

Murlidhar Rao, CGM, NABARD

- Therefore this limit (Rs. 25,000) may be for consumption loans and Rs. 50,000 may be the limit fixed for IGA loan. Also the loans of more than Rs. 25,000/- should be given directly to individuals (and not through group method).

Arindom Datta, Rabo Bank

Response by Mr. Malegam: Rs 25,000 for certain income generating activities may be small. Size of loan is directly proportional to size of installment which is again proportional to the average household income. So the limit was fixed. Moreover, MFIs have the flexibility of not having 10% of their total assets in the “qualifying assets” category from where loan requirement of exceptional cases can be met.

7.11 there should be a “margin cap “of 10% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of Rs 100 crores and a margin cap of 12% in respect of MFIs which have an outstanding loan portfolio at the beginning of the year of an amount not exceeding Rs 100 crores. There should also be a cap of 24% on individual loans.

- Participants appreciated and endorsed it.
- However suggested that the cost of capital to MFIs should also be capped at 12%. RBI should ask commercial banks to charge max. of 12% interest on loan to MFIs
- Also that the high rate of interest being charged by the MFIs is partly due to the development cost. Poor borrowers cannot bear the development cost. Therefore government should incentivize MFIs to reach out to more un-banked areas.

G.R Goyal, Director Navjeevan Microfinance,
Somesh Dayal Manager for Policy, Sadhan
Jaipal Singh, ED, CmF

Response by Mr. Malegam: In case of margin caps on bank lending, there is no control on the rates at which the banks lend to MFIs. Some discussions regarding this have been held with bankers and effort should be made that MFI get debt at a cost in an around 12%.

Development cost is a part of the total cost and it is unfair for the credit borrowers to bear the losses instead of MFI. MFIs should identify these development costs and encode them.

15.3 All NBFC-MFIs should have a minimum Net Worth of Rs 15 crores.

- Rs 15 crores equity is too high for new entrants it should be kept around 5 to 7.5 crores.

Shri Brij Mohan Ex- ED, SIDBI

- In fact the operating costs of smaller MFIs are lower than the bigger MFIs (mentioned in report under section 7.5) therefore smaller and local MFIs must be encouraged.

Jaipal Singh, ED, CmF

Regulations:

For regulating such a large number, a mixture of central and local level decentralization would be required. The central level regulatory body being the RBI, implementation should be decentralized at the district level with the lead bank as the ombudsman and an appellate authority at the state level. The ombudsman should have representative of the state government, banks and civil society.

Prof. V.S Vyas, Member Economic Advisory Council to Prime Minister

Valedictory session:

Prof. V.S. Vyas delivered the closing speech for the conference. He mentioned that the explanations given by Mr. Malegam to the different queries placed by the participants were very clear and lucid. Deliberating on few important areas of the report Prof. Vyas said that the high interest rates charged by the MFIs is because of high development cost which has to be compensated otherwise. Enforcement of regulations will be a strong challenge and needs to be properly decentralized for being efficient. Shri. Jaipal Singh, ED CmF concluded the event by thanking Mr. Malegam, other honorary guests and all the participants.



Annexure I: Programme Schedule

Time	Programme
10.00 – 10.15 am	Welcome address & Opening remarks by Dr. Anil K. Khandelwal Chairman, Centre for microFinance
10.15 – 10.30 am	Address by: - Sh. Y. C. Nanda, Former Chairman, NABARD - Sh. Brij Mohan, Former ED, SIDBI
10.30 – 11.00 am	Special address by Sh. Y.H. Malegam Chairman, Malegam Committee of RBI
11.00 – 11.10 am	Tea Break
11.10 – 13.20 am	Brief presentation on Malegam Committee Report & discussion on following key issues of the report among participants: - Interest Cap and Margin Cap - Multiple lending, Over borrowing - Regulation – role of banks and operational issues - Corporate Size: Implication on Small and Local MFIs - Impact on SHG movement
13.00 – 13.25 pm	Summing up & Valedictory by Prof. V.S. Vyas Member, Economic Advisory Council to the Prime Minister
13.25 – 13.30 pm	Vote of Thanks by Mr. Jaipal Singh Executive Director, Centre for microFinance
13.30 pm onwards	Lunch

Annexure II: List of participants

S.N.	Name of participant	Organization
1	Shri. Y.H. Malegam	Board Member, RBI and Chairman, Malegam Committee
2	Prof. V.S. Vyas	Member, Economic Advisory Council to PM
3	Shri. Y.C. Nanda	Ex-Chairman NABARD
4	Dr. Anil Khandelwal	Ex-CMD, Bank of Baroda
5	Shri. Brij Mohan	Former-Executive Director, SIDBI
6	Shri. N. Raman	ED, SIDBI
7	Shri. Raj Singh Nirwan	Member, Planning Board, Rajasthan
8	Shri. Sitaram Chander	World Bank
9	Shri. Ajay Tankha	Economist & MicroFinance Consultant
10	Shri. Vipin Sharma	CEO, Access Development Services
11	Shri. Arindom Datta	Senior Director & Head Rural and Development Banking, Rabo Bank
12	Shri. Sitaram Gupta	ED, Lupin Foundation
13	Shri. R.K. Das	Joint Director, BIRD
14	Ms. Sarita Singh	Secretary, DWCD, Government of Rajasthan
15	Shri. M C Gaur	DGM, SIDBI, Jaipur
16	Shri. J.K. Sinha	CGM (Rural Business), SBI
17	Shri. Manoj Kumar	DGM UCO Bank Kolkatta
18	Shri. Sailesh Verma	DGM, SBI Jaipur
19	Shri. Balwinder Singh	DGM, SBBJ Jaipur
20	Shri. Leeladhar	DGM, Corporation Bank Zonal Office Hyderabad
21	Shri. Muralidhar Rao	CGM, NABARD
22	Shri. R.K. Prabhu	GM, NABARD
23	Shri.R.K. Saraf	AGM SBI
24	Shri. Behra	Manager (MicroFinance), Corporation Bank
25	Ms. Alka Goutam	AGM, Rajasthan State Cooperative Bank
26	Shri. Gaurav Shah	LOK Capital
27	Shri. K.M. Noordeen	Deputy Director, MPOWER, Government of Rajasthan

28	Shri. Praveen Sharma	Livelihood Consultant, RRLP
29	Shri. Piyush Pareek	SP MicroFinance, RRLP
30	Shri. Vigyan Vikram Singh	Project Director, RMOL
31	Shri. Anurag Agarwal	Director, Intellectap
32	Shri. Dushyant Joshi	PO, PEDO
33	Shri. Prakash Chhargan	Cecoedecon, Jaipur
34	Shri. Ramesh	Senior Manager, Urmul
35	Shri. Sanjay Sharma	Team Leader, PRADAN
36	Shri. Shivendra Thakur	Bhorukha Charitable Trust
37	Prof. V.S. Bhadauria	Professor, IDS Jaipur & Chair, Bank of Baroda
38	Shri. Somesh Dayal	Manager for Policy, Sa-Dhan
39	Shri. Ronendra Chowdhury	GM Operations, Bandhan
40	Shri. Pramod Paliwal	Director, Arth MicroFinance, Jaipur
41	Shri. G.R Goyal	Director, Navjeevan MicroFinance
42	Shri. Abhishek Singh Garwahar	Senior Regional Manager, SKS microFinance
43	Shri. Jaipal Singh	Executive Director, CmF
44	Shri. Sourav Roy	Programme officer, CmF
45	Shri. Anil Kumar Singh	Programme officer, CmF
46	Shri. Govind Akar	Admin officer, CmF
47	Ms. Roma Bhujabal	Programme Associates, CmF
48	Ms. Indrani Gupta	Programme Associates, CmF

CENTRE FOR MICROFINANCE, JAIPUR

We believe that financial inclusion of the poor and the marginalized is necessary for inclusive growth and the poor need access to credit and other financial services at equitable & fair terms.

With a mission to uphold and further this belief, Centre for microFinance was established in 2005 to catalyze and the growth of the microfinance sector in Rajasthan.

CmF strives for

- **Increasing the outreach of microfinance services to the poor**
- **Enhancing the quality of SHGs and other community based microfinance institutions**
 - **Encouraging innovations in microfinance products and delivery channels**
 - **Creating conducive policy environment for microfinance in the state**