



Bill Summary

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

- The Micro Finance Institutions (Development and Regulation) Bill, 2012 was introduced in the Lok Sabha on May 22, 2012. The Bill aims to provide for the development and regulation of micro finance institutions.
- A micro finance institution (MFI) is defined as an organisation, other than a bank, providing micro finance services. These services are defined as micro credit facilities not exceeding Rs 5 lakh in aggregate, or with the Reserve Bank's (RBI) specification Rs 10 lakh, to each individual. Other services like collection of thrift, pension or insurance services and remittance of funds to individuals within India also come under micro finance services.
- The Bill allows the central government to create a Micro Finance Development Council with officers from different Ministries and Departments. This council will advise the central government on policies and measures for the development of MFIs.
- In addition, the Bill allows the central government to form State Micro Finance Councils. These councils will be responsible for coordinating the activities of District Micro Finance Committees and reviewing the MFIs in their state.
- District Micro Finance Committees review the development of micro finance activities within the district, monitor over-indebtedness and monitor the methods of recovery used by MFIs. These committees can be appointed by the RBI.
- The Bill requires that all MFIs to obtain a certificate of registration from the RBI. The applicant needs to have a net owned fund of at least Rs 5 lakh. By 'net owned fund' the Bill means the aggregate of paid up equity capital and free reserves on the balance sheet. The RBI should also be satisfied with the general character or management of the institution.
- Every MFI will have to create a reserve fund and the RBI may specify a percentage of net profit to add to this fund. There can be no appropriation from this fund unless specified by the RBI.
- At the end of every financial year, MFIs are required to provide an annual balance sheet and profit and loss account for audit to the RBI. They will also have to provide a return detailing their activities within 90 days of the Bill being passed.
- Any change in the corporate structure of a MFI, such as a shut down, amalgamation, takeover or restructuring, can only take place with approval from the RBI.
- The RBI has the power to issue directions to MFIs. This could include directions on the extent of assets deployed in providing micro finance services, ceilings on loans or raising capital.
- The RBI has the authority to set the maximum annual percentage rate charged by MFIs and set a maximum limit on the margin MFIs can make. Margin is defined as the difference between the lending rate and the cost of funds (in percentage per annum).
- The RBI shall create the Micro Finance Development Fund. Sums raised by the RBI from donors, institutions and the public along with the outstanding balance from the existing Micro Finance Development and Equity Fund form this fund. The central government, after due appropriation from Parliament, may grant money to this fund. The fund can provide loans, grants and other micro credit facilities to any MFI.
- The RBI is responsible for redressal of grievances for beneficiaries of micro finance services.
- The Bill allows the RBI to impose a monetary penalty of upto Rs 5 lakhs for any contravention of the Bill's provisions. No civil court will have jurisdiction against any MFI over any penalty imposed by the RBI.
- The Bill gives the central government the authority to delegate certain RBI powers to the National Bank of Agriculture and Rural Development or any other central government agency.
- The central government has the power to exempt certain MFIs from the provisions of the Bill.

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