CHAPTER-5

GOVERNMENT INITIATIVES FOR MICRO FINANCE AND LIVELIHOOD

5.1. INTRODUCTION

The law dictionary defines government as “the machinery by which the sovereign power in a state expresses its will and exercises its functions; or the framework of political institutions, departments, and offices, by means of which the executive, judicial, legislative, and administrative business of the state is carried on.

5.2. IMPORTANCE OF GOVERNMENT:

In the current scenario the world the importance of the government’s participation for development of an economy can hardly be questioned. Government always play vital role in many aspects. Like, in India the planning wing – NITI Aayog (National Institution for Transforming India) is assigned with the task of preparing comprehensive plan for the development of all the state and union territories of India. In market also government plays an important role to control price, inflation, industrial licensing etc. for setting up equilibrium for the stability of the economy.

The sectors like- railways, roadways, setting up research centers etc. requires huge investment. Government takes the steps to invest huge funds. Government takes steps to invest huge funds into therein by accumulating funds through taxes and other revenues. The importance of government cannot be underestimated in setting up various financial institutions like NABARD, IDBI etc. Government is that functionary which carries out all the works for the betterment of the general public as a whole.
Therefore, for the development of a sector in an economy like India we cannot think of development without government’s intervention. For that reason it is necessary to look into the segment of government initiatives for microfinance and livelihood generation. In this chapter some of the important institutions and steps taken by the government are highlighted:

5.3. NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD):

National Bank for Agriculture and Rural Development was established on 12th July 1982 by Govt. of India on the recommendation of Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) review committee (www.nabard.org). It is working for developing rural sector of the economy by supporting infrastructure development in rural areas, by motivating commercial banks to implement credit plans of the NABARD at District level, by guiding and supervising Regional Rural Banks and Cooperative Banks. The project launched by NABARD in 1992- Self-Help Groups- Bank Linkage Programs- has become world’s largest micro finance project.

The initiative in the field of Micro-finance and livelihood generation are explained under the following sub headings:-

5.3.1. Digitisation of Self-Help groups- NABARD has launched a project on complete digitisation of Women Self-Help Groups at Ramgarh in Jharkhand. This project will help the Self-Help Groups in reducing their work related to recording financial transaction at periodical intervals. NABARD has launched the digitization software with an ‘app’ in local language. The data would be uploaded in the website- www.eshakti.nabard.org, through mobile handsets or tablets. It would help in maintaining transparency among the
groups and also would be beneficial for the banks in credit appraisal, disbursing loans and monitoring the group’s financial activities. The Self-Help Groups members would be included in the Prime Minister JandhanYojana which would help them to access a wide range of service. The Self-Help Groups would be able to maintain e-books for their financial transactions. This project will be beneficial for the 42 lakhs credit linked account (out of 74 lakhs accounts) in the country and it would be expanded in nine more districts and later in all over India.

5.3.2. Self-Help Groups- Bank Linkage Program: The project initiated with 500 Self-Help Groups with the financial institutions in the year 1992 on a pilot study bases has become world’s largest Micro-Finance initiative today in terms of its outreach and members. This Self-Help Groups following ‘Panchsutras’ i.e,-

- Consistent group meetings
- Regular savings
- Internal lending
- Timely re-payment of loans
- Proper books of accounts

have proved to be good customers for the banks. By providing promotional grant assistance NABARD has encourage the various stakeholders like Non-Governmental Organisations, Regional Rural Banks, Farmer’s Club, DCCB’s, Primary Agricultural Cooperative Society to play the role of Self-Help Groups Promoting institutions (SHPI) for nurturing and enabling the Self-Help Groups to link with the Banks. Banks would get 100% re-finance facilities for disbursing
loan to the Self-Help Groups. Moreover NABARD is also supporting the Livelihood and Enterprise Development Programs for Self-Help Groups.

5.3.3. Joint-Liability Groups: Financing of Joint-Liability Groups began as a mainstream activity of banks in the year 2006 based upon the pilot project of 2004-05 in eight states by NABARD with the help of Regional Rural Banks. NABARD also gives 100% re-financing facility to banks for extending loan to the Joint-Liability Groups.

5.3.4. NABARD Financial Services Limited: NABARD started NABARD Financial Services Limited in the year 2009 to make it as a model Micro-Finance Institutions in India which will maintain transparency in its working and would charge reasonable interest from its clients. NABARD extends its re-financing facility to this micro-financing institutions.

5.3.5. Training and Capacity Building: NABARD emphasizes on training of various stakeholders like Non-Governmental Organisations, Self-Help Groups Members, Officials and Trainers for their capacity building and by preparing and revising the training modules from time to time.

5.3.6. Micro-Enterprise Development Program: This program is for those Self-Help Groups which are already getting fund from banks and are matured one. Through this program the Self-Help Groups Members gets need based Skill Development Training.

5.3.7. Livelihood and Enterprise Development Program: To get the full benefit of earlier mentioned Micro-Enterprise Development Program, this program was initiated by NABARD in 2015. This program aims at creating sustainable livelihood for the trained members by giving skill up gradation training.

5.3.8. National Rural Livelihood Mission and NABARD; NABARD is working in collaboration with National Rural Livelihood Mission for giving training to the trainers, conducting
village level programs and for smoothly transitioning Self-Help Groups of intensive blocks under National Rural Livelihood Mission to State Rural Livelihood Mission.

5.4. SWARANJAYANTI GRAM SWAROJGAR YOJANA/ NATIONAL RURAL LIVELIHOOD MISSION:

The Swaranjayanti Gram Swarojgar Yojana was launched in the year 1999 by Ministry of Rural Development, Government of India by restructuring integrated rural development programme (IRDP), Training of Rural Youth for Self-employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Toolkits to Rural Artisans (SITRA), Million Wells Scheme (MWS). It was a holistic scheme which aimed at improving the income of poor household and designing flexible local need based micro enterprise development plan to generate sustainable livelihood. The scheme also aimed at establishing linkages between marketing, credit, technology, infrastructure etc. This scheme suffered from various shortcomings as reported by Committee on Credit Related Issues chaired by Prof. R.Radakrishna and as recommended by the committee the Swaranjayanti Gram Swarojgar Yojana was restructured as National Rural Livelihood Mission, also known as ‘Aajeevika’ to implement the scheme in mission mode across the country.

The restructuring was done as government estimated that 4.5 crore households out of 7 crore were still needs to be organized into self-help groups. The National Rural Livelihood Mission was based upon three pillars which includes creating livelihood options for the poor, skill development and nurturing entrepreneurs and self-employed.
The National Rural Livelihood Mission is based upon ‘demand driven strategy’ where states were assigned with the task of preparing “annual action plans for poverty alleviation and to develop the need based livelihood perspective plans”.

The features of National Rural Livelihood Mission are as follows:

5.4.1. It aims at universal social inclusion by ensuring that at least one member from an identified rural household joins self-help groups and in this initiative 100% BPL families are covered. The members joining the group preferably should be women.

5.4.2. It also aims at promoting village and higher level institutions.

5.4.3. The mission aims at providing training to the poor for enhancing their capacity and skills so that they can manage their institutions.

5.4.4. The mission would extend revolving fund to the members along with capital subsidy.

5.4.5. The mission have the objective of providing universal financial inclusion.

5.4.6. It will aim to diversify the livelihood activities of the poor households and works towards achieving sustainability.

5.4.7. The mission would also provide infrastructure and marketing support for the key livelihood activities.

5.4.8. In collaboration with National Skill Development Corporation the mission would also provide skill upgradation and placement project for the youth. 15 percent of the centrally allocated fund would be assigned specially for this purpose.
5.4.9. The scheme also aimed at encouraging financial institutions to set up Rural Self Employment Training Institute (RSETI) for transforming unemployed youth into an entrepreneur.

5.4.10. NRLM also focuses on supporting innovative ideas eradicating poverty, for which 5 percent of its fund is kept aside to invest in such ideas.

5.4.11. It also aims at working in convergence with other state institutions/schemes for developing the poor.

5.4.12. NRLM would work in consultation with the panchayati raj institutions/village institutions by exchanging ideas and sharing resources.

5.4.13. The states were given a time limit of one year for transiting their SGSY schemes to NRLM after its launch.

5.4.14. NRLM would extend technical support to the state for strengthening their capabilities. (PIB, 2011)

Central Government has planned to invest Rs.90000 crore for extending loan to the Self-Help Groups in 2016-17 and 2017-18. This scheme has been implemented in 3,157 blocks of 462 districts in phase manner. The mission has also empowered the states to take-up innovative strategies for implementing the plan. The successful strategies adapted by one state must be shared with other states, for this purpose workshop were being organized to provide the platform for sharing ideas (PIB, 2016).

5.5. SIDBI AND MICROFINANCE:

In 1992, SIDBI have also launched its bank linkage and later in 1994, it initiated Micro Credit Scheme (MCS) as a pilot project. The success of micro credit scheme led to the establishment of SIDBI Foundation for Micro Credit (SFMC) in the year 1999. SIDBI also
launched the TREAD programme for empowering women and supporting Micro Finance Institutions and Non-Governmental Organisations. Despite the problems faced by microfinance industry during Andhra Pradesh crisis, SIDBI took various steps to promote microfinance and strengthen Micro Finance Institutions. A unified code of conduct for microfinance has been put in place by SIDBI in collaboration with microfinance association- Sa-Dhan and Micro Finance Institution Network. A fund of Rs. 100 crore has been set up under Microfinance Equity Fund by SIDBI during 2011-12.

Central government has approved Credit Guarantee Fund (CGF) for MUDRA loans and steps to make SIDBI Bank as a wholly owned subsidiary by SIDBI. MUDRA (SIDBI) bank would refinance the member Micro Finance Institutions who will meet the eligibility criteria of size, assessment, processes followed etc. and they will be termed as Member Lending Institutions (MLIs). On 1\textsuperscript{st} Jan, 2016 1.73 crore borrowers have received MUDRA loan of Rs.71,312 crore.

The Credit Guarantee Fund Scheme for Micro and Small Enterprises was jointly operated by Government of India and SIDBI for supporting young entrepreneurs.

5.6. RASHTRIYA MAHILA KOSH:

It was established as an autonomous body under Ministry of Women and Child Development in 1999. The main aim of this kosh was to use credit as an instrument of bringing changes in society, for supporting women to take up innovative methodologies, to promote networking among women, to support the association of women to take up entrepreneurial activities etc. (rmk.nic.in)
RMK has been extending microfinance services by giving loan to Intermediary Organizations (IMOs) at 6 percent rate of interest. This IMO lends money to the Self-Help Groups at a little higher interested which may go up to 14 percent.

The mechanism of working of RashtriyaMahilaKosh have been explained below:

I. Application are taken from the Non-Governmental Organisation with all requisite information.

II. Then a pre-sanction study is taken up by it or the proposal is rejected directly.

III. When the application is submitted with proper documentation then only the pre-sanction study is taken up by RMK personnel.

IV. During the study the officials from RMK visits the respective applicant’s office and the Self-Help Groups promoted by them, then only report is prepared for the study.

V. After preparing the report the concerned officials apprises the competent authority.

VI. Then the competent authority either directly rejects the proposal or review the relevant facts or sanctions the loans.

VII. If the loan is sanctioned, then the concerned Non-Governmental Organization would be communicated with all the terms and conditions of the loan.

VIII. In later stage, a post sanctioned study would be taken up by the RMK officials, where the officials verifying all the documents related to the utilization of loans and also meets the Self-Help Group members who were the beneficiaries.

IX. If any fault is found then the RMK officials blacklist the Non-Governmental Organization from taking any loan in future and takes legal action against them. (PIB, 2015)

RashtriyaMahilaKosh offers loan under various schemes like-
➢ Loan promotion schemes
➢ Main loan schemes
➢ Gold credit schemes
➢ Housing loan schemes
➢ Working Capital Term Loan, etc. (PIB, 2013)

5.7. REGIONAL RURAL BANKS:

Regional Rural Banks were set up on the recommendation of Narshimam Committee in the year 1975 to cater the savings and credit requirements of rural poor. The basic aim of establishing Regional Rural Bank was to serve the rural areas. The salient features of Regional Rural Banks are as follows-

➢ Regional Rural Bank work towards contributing for the development of agriculture, industry, etc. in the rural area.

➢ It renders services in the rural area by serving through the products specially designed to meet rural need.

➢ This Banks were constituted by combining the good features of both commercial and cooperative banks.

➢ Regional Rural Banks are treated as driving force towards achieving financial inclusion in rural areas. (Das & Tiwari, 2012)

5.7.1. The Regional Rural Banks and Microfinance:

The branches of Regional Rural Banks spread over rural area extends direct finances to the Self-Help Groups and Joint Liability Group members who have undertaken various activities
like fishery, piggery, poultry, agriculture, etc. or by re-financing Micro Finance Institution for extending micro credit to the borrower for the an amount not exceeding Rs. 50000/-. Since Regional Rural Banks are set up to extend financial services in rural areas and towards the rural poor, so sometimes it may also be termed as ‘microfinance bank’.

The Regional Rural Banks extend loan to Self-Help Groups through the Self-Help Group-Bank Linkage Program, whereby an account is open by the Self-Help Group in the Bank and loan is given through that account to the entire group in one time rather than giving loan to individual members. The Banks extend loan only to those Self-Help Groups who were in existence for at least six months and has been promoting savings among the 10 to 20 group members.

In Assam, five Regional Rural Banks have been working with PragjyotishGaolia Bank. Later, four Regional Rural Banks where amalgamated vide notification no. F.1.(25)/2005 dated 12th January,2006 to form Assam GraminVikash Bank sponsored by United Bank of India (www.agvbank.co.in).

5.8. MODES OF DELIVERY OF MICROFINANCE:

The methods of delivering microfinance services have been changing with the passage of time. In India, different models are followed for delivering these services. These different models are somewhere related to each other. The major MFIs in India are following more than one model for delivering their services. These models vary in legal forms, in their approach towards sustainability and depending upon the origin of their funds and management (World Bank, 2005).
The following are some of the models which are followed by the financial institutions:

5.8.1. **Self Help Groups (SHGs) Model:**

The most prominent model for delivering microfinance is the SHG model. SHGs are voluntary association of people formed to achieve common social and economic goals. (Shete, 1999). Here, a group is formed with 10-20 members which may or may not be registered one. These groups consist of either male or female members, generally mixed groups does not prevails. Women dominates the group formation, which means they participate actively in the form of SHGs. The members of the group shares almost same economic and social background. These SHGs performs various functions like creating savings habit among the group members by saving an amount decided by all the group members regularly. Then they use these saved amount generally for internal group lending. The groups follows the motto of ‘savings first, credit later’ (Das & Tiwari, 2012). They organizes regular group meetings for discussing the financial and other problems faced by the members. These groups inculcates financial discipline which later helps them to approach commercial banks or Micro Finance Institutions for getting loan (Status of Microfinance in India, 2015-16)

Among all methodologies, Self Help Groups (SHGs) model is more popular in India. There are three models of SHGs.

5.8.1.1. **SHGs-Bank Linkage model:** This model involves the SHGs financed directly by the Banks viz. CBs(Public Sector and Private Sector), RRBs, and Cooperative Banks. The following figure shows the general linkage model and modified linkage model.
1. **Linkage Model**  
*General Model*

Members → Savings → SHG

Credit at rates decided by Members

SHG → Savings → Bank

Credit at rates decided by Bank

*Figure 4.8: General Linkage Model*

2. **Modified Linkage Model**  
*e.g., OBC Dehradun*

Members → Credit at rates prescribed by Bank

SHG → Savings → Bank

*Figure 4.9: Modified Linkage Model*
5.8.1.2. **MFI-Bank Linkage model**:-This model covers financing of micro Finance Institutions (MFIs) by banking agencies for onward lending to SHGs and other small borrowers.

5.8.1.3. **NGOs-Bank Linkage Model**:-Under this model NGOs promote the linkage between banks and SHGs for savings and credit. The following figure shows the NGO model and modified NGO model.
Further, among the above three, SHG-Bank and MFI- Bank linkage model are the most popular. The MFIs follow mostly the Grameen model with some variations, and the MFIs do not have some typical interesting features which the SHGs have (Chowdhury, 2012).
5.8.2. JOINT LIABILITY GROUPS (JLGs):

JLG are consisting of 4 to 6 members who come up together to form an informal group for availing loan from banks or micro finance institutions on individual or group basis. They give guarantee for each other by offering joint undertaking to the lending institution (Das & Tiwari, 2012). The following are the features of JLGs:

i. There are 4 to 6 members from the same locality.

ii. These groups are formed for availing loan from the financial institution by giving guarantee for each other.

iii. They select one of their members as a group leader

iv. Unlike the SHGs they do not hold regular meetings.

5.8.3. Individual Banking Programmes (IBPS):

Microfinance may also be delivered at individual level. It is not always necessary to be a part of some group availing credit from the micro finance institutions. In this model the individual have to make comfortable the micro finance institutions. In this model the individual have to make comfortable the micro finance institution regarding his/her creditworthiness. MFIs generally take decision based upon the personal knowledge they have regarding their clients. MFIs also seek guarantor from the individual client who could be his/her friend, relative etc. the co-operative banks, commercial banks etc. generally follow this model.

The following are the advantages of this model over others:

i. The MFIs can increase its outreach by attracting new clients or persons who may not find group environment comfortable.
ii. The MFIs can offer customised services to its clients by making the repayment cycle flexible as per the customer needs, which may attract more customers.

iii. Individual clients can maintain their privacy as they do not have to share their financial dealings with anyone.

iv. Further, the MFIs can monitor strictly the client, whether the client is using that for the said purpose or not.

5.8.4. Grameen Model:

The most well-known model in the world is the Grameen model- the creation of MdYunus, the Nobel laureate. It is practiced by many financial institutions for delivering microfinance and also in many poverty alleviation programmes. The following are the briefly highlighted objectives of Grameen bank:

i. Providing banking facilities to the poor people.

ii. Safeguarding the poor people from the clutches of moneylenders.

iii. Creating employment opportunities for the poor people.

iv. Creating an organisation which the poor people can manage and understand.

v. Reversing the age old concept of ‘low income, low saving and low investment’ into ‘low income, injecting credit, investment, more income, more savings, more investment, more income’. (Grameen Bank, 2013)

This model works on the principle of joint liability. The members can borrow fund in phase manner. In the first phase only two members can borrow then in the next phase other two
members can borrow and finally the last member becomes eligible to borrow. The meeting of the
groups take place at the central level where eight group (40 members) meet together for carrying
out financial transaction.

5.8.5. MIXED MODEL:

Mixed model is nothing but using multiple models for delivering the services of
microfinance by the micro finance institutions. A MFI may start with Grameen model and may
shift to some other model at a later stage. It may not completely unfollow the previous model, it
may use both the models, which is called mixed model. Now-a-days many MFIs are using
multiple model or mixed model of lending.

5.8.6. BUSINESS CORRESPONDENT MODEL:

The banks in India were permitted to appoint Business Correspondent in 2006 by the
Reserve Bank of India. The correspondents were assigned with a lots of activities including
disbursing small credits, collecting deposits of small value, selling of micro insurance, pension
and other third party products. The business correspondents were trained in using information
and communication technology for delivering the services of bank in those area were there were
no branches of that bank.

5.9. REGULATORY FRAMEWORK OF MICRO FINANCE INSTITUTIONS:

The Micro Finance Institutions are working in different forms under various regulations.
For instance, some are working as Societies registered under Societies Registration Act,1860 or
similar State Acts, some are working as Public Trusts registered under the Indian Trust Act, 1882, some MFIs are registered under Section-25 of the Company Act-1 956 as Non- Profit companies. Further the Mutually Aided Co-operative Societies (MACS) are set up under Mutually Aided Co-operative Societies Act, Non-Banking Financial Companies (NBFCs) are registered under the Company Act, 1956 and regulated by Reserve Bank of India. Therefore it is clear that there are various rules and regulations under which different MFIs are working and there is no specific Act or regulation to look after the regulatory framework of MFIs. The various steps taken by the Government in India are discussed briefly to understand the recent picture of regulatory framework:

5.9.1. Micro Financial Sector (Development and Regulation) Bill, 2007:

The Government of India introduced the Micro Financial Sector (Development and Regulation) Bill, 2007 in Lok-Sabha on 20th March, 2007. It was referred to the Parliamentary Standing Committee on Finance but it lapsed with the dissolution of Lok Sabha.

5.9.2. The Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Ordinance, 2010:

The Government of Andhra Pradesh had promulgated an Ordinance The Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Ordinance, 2010 (since converted to Act, 2011), on 15 October, 2010, to regulate all MFIs operating in the State to address the issues like perceived high interest rate, multiple borrowings, perceived coercive recovery practices, etc. to address the issue of large number of suicide of microfinance borrowers in 2010. The main causes of death were reported to be as multiple loans, excess indebtedness, coercive measures
adopted by the MFIs to recover the loan (Standing Committee on Finance, 2013-14). Although, following the AP MFI Act, it was reported by the MFIs that the loan recovery in AP had fallen from 97-98% to 10-20%.

5.9.3. **The Micro Finance Institutions (Development And Regulation) Bill, 2012:**

In 2011, the Ministry of Finance constituted a Committee to prepare the draft of a new Micro Finance Institutions (Development and Regulation) Bill. The representatives from Reserve Bank of India, Indian Banks Association, Small Industries Development Bank of India the Department of Financial Services, National Bank for Agriculture and Rural Development the State Governments (Bihar and Tamil Nadu), State Level Bankers’ Committee, Andhra Pradesh, Micro Finance Institutions Network (MFIN) and Sa-Dhan were the members of the Committee.

After the formulation of the draft Bill the comments were invited from the various stakeholders by the Ministry of Finance and a round table discussion also took place on 28th July 2011. After incorporating the comments of stakeholders the Micro Finance Institutions (Development and Regulation) Bill, 2012 was framed and placed in Lok Sabha on 22nd May, 2012. It was referred to Departmentally Related Standing Committee on Finance on 25th May, 2012.

5.9.4. **Differences between Micro Finance Bill 2007 and 2012:**

The following table gives a clear picture on the differences between the Micro Financial Sector (Development and Regulation) Bill, 2007 and the Micro Finance Institutions (Development and Regulation) Bill, 2012 and also helps in comparing both the Bills:
<table>
<thead>
<tr>
<th>Aspects</th>
<th>Micro Financial Sector (Development and Regulation) Bill 2007</th>
<th>Micro Finance Institutions (Development and Regulation) Bill 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope and application</td>
<td>Only NGO-MFIs registered as societies, trust and cooperatives (i.e. excluding NBFCs and Section 25 companies)</td>
<td>All MFIs in all forms</td>
</tr>
<tr>
<td>Structure of the sector</td>
<td>One tier, MFOs only, (apart from NBFCs and Section 25 companies, but no provisions applicable to them)</td>
<td>The sector is now covered under the provisions of the Bill in its entirety.</td>
</tr>
<tr>
<td>Savings mobilization</td>
<td>Only thrift’ for MFO from members</td>
<td>Thrift mobilization from public also permitted</td>
</tr>
<tr>
<td>Supervisor</td>
<td>NABARD</td>
<td>RBI – with powers to delegate to NABARD and to other agencies as may be deemed fit.</td>
</tr>
<tr>
<td>Advisory council</td>
<td>Advisory, with majority consisting of officials representing specified agencies ex-officio.</td>
<td>In addition to a national level council, provisions have been made for state level councils as well as district level committees for monitoring of functioning of MFIs.</td>
</tr>
<tr>
<td>Grievances handling and appellate authority</td>
<td>MFDC &quot;may&quot; set up ombudsman</td>
<td>Ombudsman provided for.</td>
</tr>
<tr>
<td>Capital norms</td>
<td>NOF of at least Rs.5 lakh and a capital adequacy ratio of 15%</td>
<td>Rs.5 lakh as minimum entry capital – RBI to stipulate prudential norms</td>
</tr>
<tr>
<td>Instruments</td>
<td>Registration for thrift taking</td>
<td>Registration for all,</td>
</tr>
<tr>
<td>Customer protection</td>
<td>MFOs and information reporting for all</td>
<td>information reporting and interest rate caps</td>
</tr>
<tr>
<td>---------------------</td>
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<td>---------------------------------------------</td>
</tr>
<tr>
<td>Through Ombudsman</td>
<td>Norms for customer selection, size of loans, interest disclosure, process controls and interest / margin ceilings. Also through District Micro Finance Committees</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Powers of regulator</th>
<th>Minimal</th>
<th>Power to cancel registration, order for winding up, merger and acquisition, imposition of penalties, delegation of powers, issuance of directions</th>
</tr>
</thead>
</table>

(Source: 84th Report of Standing Committee on Finance, February, 2014)

5.9.5. **Rejection of Micro Finance Bill, 2012:**

The standing committee on Finance chaired by Yashwant Sinha rejected the MFIDR Bill on 11th February, 2014 (PTI Feb 11, 2014) citing various reasons like, no in-depth study has been taken before drafting the Bill, the Bill suggest to make Reserve Bank of India as the regulatory authority for Micro Finance Institutions but RBI is already vested with so many responsibility; so the Standing Committee suggested to create a new Micro Finance Regulatory and Development Authority (Economic times, 2014).

5.9.6. **Self-Regulatory Organization status to MFIN:**

Reserve Bank of India (RBI), vide its letter dated 16th June 2014, has accorded formal recognition to MFIN as the Self-Regulatory Organization (SRO) for the NBFC-MFIs to ensure compliance with RBI’s regulatory prescription and the industry Code of Conduct.
5.9.7. Introduction the Micro Units Development Refinance Agency (MUDRA) Bank:

In the Union Budget 2015-16, the Prime Minister of India introduced the MUDRA Bank with a corpus of Rs 20,000 crore. The main aim of government was to meet the need to provide finance to micro and small business, and to promote self-employment and entrepreneurship in the country. MUDRA Bank is launched as a subsidiary to the Small Industrial Development Bank of India. But later, the government has the plan to convert it into a full-fledged institution under the Ministry of Finance. The government of India has also planned to club the long pending Micro Finance Institution (Development and Regulatory) Bill, 2012 with the Micro Units Development Refinance Agency Bank Bill, so as to set up a regulatory authority which will integrate the disintegrated regulatory bodies of Micro Finance Institutions into one. Further, the power of regulation of Micro Finance Institutions will be pass on to the Ministry of Finance from the Reserve Bank of India as proposed in the MFiDR Bill, 2012 (Finance Ministry considers clubbing MFI & MUDRA Bank Bills, April 6, 2015) (Financial express, 2015)

5.9.8. Initiation of Small Finance Bank and Payment Bank:

- **Small Finance Banks:**

  These banks were introduced to advance loan especially to the unbanked, small business and farmers and also to micro and small industries who do not have access to finance from large banks. Interestingly, the ten entities who got the "in-principal" approval to transform into banks, eight are micro finance providers. These banks have to focus mainly to get business form the priority sector (especially-agriculture) in the area where large banks are absent. The Reserve Bank of India vide its press release dated 16th September, 201 announced to grant "in-principal" approval to set up small finance bank to Au Financiers (India) Ltd., Jaipur; DishaMicrofin
Private Ltd., Ahmedabad; Capital Local Area Bank Ltd., Jalandhar; ESAF Microfinance and Investments Private Ltd., Chennai; Equitas Holdings P Limited, Chennai; Suryoday Micro Finance Private Ltd., Navi Mumbai; Janalakshmi Financial Services Private Limited, Bengaluru; Ujjivan Financial Services Private Ltd., Bengaluru; RGVN (North East) Microfinance Limited, Guwahati and Utkarsh Micro Finance Private Ltd., Varanasi (Times of India, Sep 17, 2015)

- **Payment banks:**

  The Payment Banks are the banks which cannot offer loans but can accept deposits of upto Rs 1 Lakh. These banks will offer services of transferring money, payment of bills, cashless, cheque less transactions through mobile phones and the service of Debit Card usable at ATM networks. Its special feature is that it will reach its customers through mobile phone networks, unlike traditional bank branches.

  The Payment banks are the first step in the India's banking history, where Reserve Bank of India is giving license for specific activities. Eleven entities have got the "in-principal" approval viz. Airtel M Commerce Services Ltd, Department of Posts, Aditya Birla Nuvo Ltd, National Securities Depository Ltd, Dilip Shantilal Shanghvi, Vijay Shekhar Sharma, Tech Mahindra Ltd, FinoPayTech Ltd, Reliance Industries Ltd, Cholamandalam Distribution Services Ltd and Vodafone m-pesa Ltd. The RBI is focusing to reach the unbanked rural poor at a low cost platform (through mobile phones) without opening a bank branch. This innovation will lead to a step forward for cashless economy. It is noteworthy to mention here that Vodafone M-Pesa is used by two in three adults in Kenya, which is the most cited success story. (The Hindu, August 20, 2015)

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