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Shri Arun Jaitley
Cabinet Minister of Finance
Ministry of Finance
North Block, New Delhi - 110 001

Hon'ble Minister,

Sub.: Legislation on Micro-finance Institutions

Greetings from CUTS International!

This is with reference to the media cutting (enclosed) reporting your statement in the *Lok Sabha* that the Government has started consultations with all stakeholders, including State Governments, and may bring in a new legislation for regulating micro-finance institutions. We very much appreciate this initiative.

As the sector completes more than two decades of operations with a high growth trajectory, an enabling regulatory environment that protects interest of stakeholders as well as promotes growth, is very much needed.

However as you are aware that the impact of the 'Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Act, 2010' has been significant with the drastic drop in loan repayments. MFIs are still struggling for recovery after a crisis triggered by the law that reined in MFIs. As a result MFIs operating in Andhra Pradesh have stopped or reduced making fresh loans due to their mounting non-performing assets, given the limited scope of recovery. The direct effect has been to deny millions of India's poorest citizens access to basic financial services.

The poor need continue to have access to credit on easy terms. At the same time the poor consumers, who are availing the credit need to be protected from high rates of interests and coercive practices. The government need to play this very sensitive balancing act.

Also, as we, many are concerned about the proposed centralised regulatory mechanism (as per the earlier MFIs Development and Regulations Bill 2012) at the national level and RBI being the single regulator, due to the quantum of regulatory work already being carried out by RBI, as the banking regulator. Hence the alternative proposal is to either entrust the responsibility to NABARD or go for a decentralised, MFI Ombudsman scheme, having state-wise system with a two tier mechanism at the state as well as at the district level. We request you to kindly look into this aspect, while bringing in the new regulation.

Since it is already delayed, we kindly request you that there should not be further delay to bring in this new legislation in order to save this sector and in the interest of millions of poor in India.

Look forward for your valued response, I remain.

With regards



George Cheriyan
Director