THE CURIOUS TALE OF MICRO-FINANCE, SELF-HELP GROUPS AND FINANCIAL INCLUSION

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Abstract

Financial inclusion is one of the pillars of a robust, sustainable emerging economy like ours. To put it simply, the more the money supply, greater is the scope for investment and growth. However, the model of financial inclusion in India this far has heavily focused on formal-sector while one of the largest sources of credit is the informal-sector. With the launch of initiatives such as the Prime Minister's *Jan Dhan Yojana* , there has been a conscious acknowledgement of the need to bring more and more people into the realm of formal banking systems. The mushrooming of Micro-Finance Institutions (MFIs) has aided the channeling of credit to those in need of it and thus, there is a need to examine the system that links a sizeable portion of our population with sources of credit, thus, enabling greater financial inclusion. In this paper, researcher shall, *one*, examine the functions of SHGs including economic empowerment of people by improving the credit delivery system with a case-study from Andhra Pradesh, *two*, highlight the recommendations of the *Malegam* Committee and the features of the Micro-Finance Institutions (Development and Regulation) Bill, 2012, and *lastly*, concluding remarks and observations based on the findings of the researcher in the course of her study.

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Part I

Introduction

A self-help group is a village-based financial intermediary committee usually composed of around ten-twenty people (men or women – but often of all of them belonging to the same gender). SHGs as they are often called, are prevalent across South Asia, more so in India and Bangladesh. These groups help and nurture a small, homogenous group of people who more often than not, belong to economically weaker sections of the society; they form a collectivity where they analyze the problems they face and find solutions to address them. One of the main goals of SHGs is to bring forth a sense of empowerment – economically, socially, and even politically – as citizens with voices. Poverty alleviation through the process of financial inclusion by means of accessibility to credit, a low-interest rate as and when required by its members is a prime feature of an SHG. Instead of approaching the traditional money-lender for credit, if each SHG member were encouraged to pool in a sum in the form savings so as to stock up sufficient capital which can then be lent to the members – often, it can also be used as a leverage to avail loans from a formal financial institution such as banks which is then lent to the members at a relatively low interest rate (otherwise, in the absence of collateral and knowing the financial incapacity of individuals to repay the borrowed sum, banks may refrain from lending to poor persons). The Nobel-winning, Bangladesh based Grameen Bank too was based on the principles of widening credit-access to the rural poor, and saving them from loan-sharks. Further, the chance of default is rather low since the social dynamics of group cohesion ensure that members are well-aware of the fact that they have to make repayments and cannot squander what they have borrowed.

NABARD's "SHG-Linkage Programme", launched in 1992, helps many SHGs borrow from banks once they have accumulated a base of their own capital, and have established a track record of regular payment.[1] Currently in its second phase, this programme seeks to be the mainstay of the Indian microfinance scene with almost half a crore SHGs having access to bank credit.[2] This is no doubt one of the most comprehensive and viable model of financial inclusion, hitherto unimaginable for the poor. The Nachiket Mor Committee set by the Dr. Raghuram

[1] *At*, https://www.nabard.org/english/shg_2.aspx Last visited on 25.11.2015.
[2] *At*, https://www.nabard.org/english/shg_2.aspx Last visited on 2.11.2015..

Rajan, Governor, Reserve Bank of India, suggests how important banks are in our fight against poverty, especially by providing rural credit.[3]

Credit lending through SHGs not only encourages thriftiness whereby members are motivated to save money and use it purposefully, thus inculcating financial planning in households, as also fulfilling the goal of empowerment and encouraging entrepreneurship in small and medium enterprises. Within India, on the pace of "microfinanciarization", that is, the structural changes of microfinance from a non-profit donation based model to commercially attractive industry[4], there are inter-state and intra-state inequalities. While states such as Himachal Pradesh, Tamilnadu and Karnataka are placed at the top, those like Uttar Pradesh lie at the bottom. [5] However, at a macro-level, it helps us achieve the goal of financial inclusion in the truest sense of the word. An attempt to pass the Micro Finance Institutions (Development and Regulation) Bill, 2012 failed to get through in the Indian Parliament last year .[6]

Part II

Significance of Self Help Groups (SHGs)

One of the first SHGs was linked to banks in Udaipur in 1992 and this event witnessed a catena of visitors ranging from officials from the Reserve Bank of India (RBI), NABARD etc. This small group of women had received a meager sum of 5,000 INR as a loan and questions arose as to what they would do with this sum of money. For the early few occasions, it was a celebration of sorts during the cheque presentation ceremony in Udaipur.[7]

In simple words, it may be defined as a small voluntary association of poor people usually from the same socio-economic background, and of same gender.

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[3] *At*, http://www.livemint.com/Opinion/rSlVyk6J9fqPMzj0H4yuxL/Why-the-Nachiket-Mor-committee-report-on-financial-inclusion.html Last visited on 2.11.2015.

[4] *At*, www.rug.nl/research/globalisation.../17a.wang-tulder-sterk-willems.pdf Last visited on 12.11.2015.

[5] *At*, http://www.fao.org/ag/rurfinconference/docs/posters_theme_2/SHG_banking.pdf Last visited on 2.11.2015

[6] *At*,http://articles.economictimes.indiatimes.com/2015-02-11/news/47235813_1_micro-finance-bill-draft-report-mfis Last visited on 2.11.2015

[7] Tankha, Ajay, (2012): Banking on Self-Help Groups(New Delhi :SAGE Publications) (http://www.microfinanceindia.org/uploads/publication_link_files/shg-book.pdf)

The primary rationale behind getting a group of people together for a similar purpose where they can collectively pool in their limited resources and lend amongst themselves and later on seek a loan from a formal financial institution such as a bank.[8]

A large portion of the rural, semi-rural and semi-urban populace does not have access to credit since they do not have adequate documentary proof to show their prior history of credit. Further, some may not have other documents such as residence proof, identity proof. Further, Banks find it equally difficult to give loans to individuals who seek a small sum as credit – banks find it difficult to accommodate such low-ticket requirements on an individual basis.[9] Banks could not cater to such a spread out market and thus had to find a way out wherein this demand for credit could be tapped into in a way that was beneficial for the banks – that way, banks could expand and grow their business and meet their priority-sector lending demands as well. Making it cost-efficient for banks was the main aim. In pursuance of this, NABARD mooted a pilot project in the early 1990s. A proposition of arranging all these people who required credit into groups so that they do not have to individually approach banks was made. This way, all those individuals who sought small denominations as loans could avail loan facility from banks through the SHGs they are a part of.

The number of people with access to formal credit is still quite low in India. The informal sector remains a major source of credit to them. In the formal sector, we have commercial banks, regional rural banks amongst others.[10] The World Bank Report (2000/2001) describes Micro Finance as a "market-based formal mechanism to mitigate the risks faced by poor people as against the "informal group based mechanisms like savings and credit associations."[11] So there arose the need to bring all such scattered individuals together and channelize their credit requirement. It is from this that the term "micro" came into usage – micro loans, low-ticket lending.[12]

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[8] Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector

[9]Self Help Group – Bank Linkage Model, Last visited on 3.2.2015, (https://www.nabard.org/pdf/Chap_VII.pdf)

[10] Tara S Nair, Institutionalising Microfinance in India
An Overview of Strategic Issues, Economic and Political Weekly, Vol. 36, No. 4, Money, Banking & Finance (Jan. 27 -Feb. 2, 2001), pp.399-400.

[11] *Ibid.*

[12] *Id*.

Some of the major features of micro-lending are as follows. *One*, the borrowers belong to the low income group, that is, the small farmer/share-cropper or the local vegetable vendor who has no other way than to borrow from the local money-lender; *two*, their loan needs are of a small amount; *three,* they cannot afford to give collateral in return for the loan borrowed; *four*, these loans are often taken to meet their livelihood demands; five, that tenure of the loans is quite short – ranging from a few weeks to a few months and lastly that the model of "peer pressure" is so strong that chances of on-time repayment are high.[13]

Right from the inception of the SHG, the members are assisted by officials from NABARD, NGOs. They are told about the decision-making process, keeping of records, lending and borrowing and repayment processes and holding meetings regularly where all members are required to attend compulsorily.[14]

Under the SHG-Bank linkage, NABARD provides financial aid and grants, training and other material to Self Help Promoting Institutions (SHPI) which play the role of an agent, facilitator and catalyst in the process of credit lending.[15] The role of NABARD in churning the micro-finance sector is incomparable. It brought together NGOs, banks, and other entities working in this area and has created one of the largest self-help group movements in the world.[16]

The process of savings is similar to a chit fund (where a kitty is formed) and then distributed to all those who require it – a corpus pool is created and the members start lending amongst themselves).[17] The borrowing and lending becomes an income generating activity by itself.

Another similar, yet slightly different conception called the "Joint Liability Group" came into existence. Here, individual members could avail loans individually but were jointly liable. This is usually a group of five people who came together for the primary purpose of seeking a loan; there is no requirement for savings (Unlike SHGs). Of the five, if one took a loan, the rest four would stand as guarantors and in case of failure of repayment by that individual borrower, then the chances of the rest getting credit would be hampered. JLGs came into existence because

[13] Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector.
[14] *Ibid*.
[15] *Id.*
[16] Status of Micro Finance in India (2008-09) , NABARD, Last visited on 1.2.2015. (http://www.downtoearth.org.in/dte/userfiles/images/nabard.pdf)
[17] *Ibid.*

banks and MFIs wanted to rotate money faster as it was a more convenient option than forming an SHG. SHGs took time to form, time to stabilise and logistically needed more people (minimum 10) and resources while JLGs gave an easier way out. Both SHGs and JLGs work on the principle of "peer pressure" – that is, since the lending agency does not know the details of how much is lent, to whom within the Group, it is up to the members to ensure repayment of the loans by all of them.[18]

Earlier, NABARD had to look for organizations that would be willing to do this work, all this while banks were still hesitant to lend loans. It was a time and energy consuming process for the SHG to seek a loan. Meanwhile, these NGOs began to borrow from banks and lend it to SHGs.

Soon after, the emergence of private banks changed the landscape. Today, banks such as ICICI have invested over 2000 Crore INR in this sector lending to women SHGs.[19]

From the perspective of the bank, it is really important that it works out the costs for lending. Initially, since NGOs were majorly involved the costs were low, as reported by NABARD. Some of the factors that the bank bears in mind include the transaction costs which are dependent upon how efficiently the funds are transferred.[20]

NABARD's SHG-Bank linkage programme started off on a small scale. Local groups of women, around 15-20, got together and the NGOs would be involved in this process too. As recent as in 2012, NABARD reported how it has helped Women SHGs grow and included the backward classes such as the Scheduled Castes and Scheduled Tribes within its ambit.[21] In the intial phases, this pilot project faced a lot of hurdles, including the need for sensititszation of NGOs, developing a stronger bond between the SHGs and local NGOs, motivate banks to lend for the informal groups since they were already reeling under the burden of non-performing assets. One of the most remarkable benefits of this linkage programme has been the phenomenal rates of on

[18] *At*, http://www.uttarakhandgraminbank.com/jlg.html Last visited on 1.2.2015
[19] ICICI Bank Plans 2500 Crore Loan, Business Standard, Last visited on 1.2.2015 (http://www.business-standard.com/article/finance/icici-bank-plans-rs-2-500-crore-loan-support-to-women-self-help-groups-114030800399_1.html)
[20]Self Help Group – Bank Linkage Model, Last visited on 1.2.2015, https://www.nabard.org/pdf/Chap_VII.pdf ,
[21] NABARD Scheme for Promoting Self Help Groups, August 2012, *At*, http://www.pib.nic.in/newsite/erelease.aspx?relid=85832

time recovery.[22] The role of NGOs, SHPIs has helped in maintaining the much needed flexibility and dynamism that this sector necessitates.[23] The other method is through the MFIs.

However, there has been some skepticism about the conversion of NGOs to NBFCs, MFIs. Some of the largest ones in India, such as Bandhan, have come a long way from being an NGO to now getting a nod to become a full-fledged commercial bank.[24] Reserve Bank of India Governor, Dr.Raghuram Rajan had noted that this "in-principle" approval had come after much deliberation and was in compliance with S.22(1), Banking Regulation Act, 1949.[25][26]

Another aspect which makes the SHG-Microfinance sector stand out is that the Know-Your-Customer (KYC) norms have been relaxed. No more do all members have to give details of themselves, photo proof etc. it is sufficient if the office-bearers such as President, Vice-President, and Secretary give their details at the time of opening of a savings bank account and this continues even at the time of credit linkage.[27]

Case study of Andhra Pradesh

One of India's largest states, Andhra Pradesh has used SHGs as a means for poverty alleviation and empowerment since 1979.[28] Micro-credit was routed through these groups and helps in reducing the impact of poverty and this has benefited the women folk more than men and has helped in providing for self-empowerment and increases their participation in developmental activities[29]. Of the million SHGs in India, a large portion is located within Andhra Pradesh.

[22] Self Help Group – Bank Linkage Model, Last visited on 1.2.2015 (https://www.nabard.org/pdf/Chap_VII.pdf)
[23] Tara S Nair, Institutionalising Microfinance in India
An Overview of Strategic Issues, Economic and Political Weekly, Vol. 36, No. 4, Money, Banking & Finance (Jan. 27 -Feb. 2, 2001), pp.399-400.
[24] Suvashree Dey Choudhury And Swati Pandey, RBI grants IDFC, Bandhan Financial bank licences in cautious experiment, Mumbai, April , 2015, Last visited on 1.2.2015 (http://in.reuters.com/article/2015/04/02/india-cbank-licence-idINDEEA310B520150402)
[25]
[26] *Ibid.*
IDFC, Bandhan get 'in-principle' nod to set up banks, The Hindu, 3 April 2015, Last visited on 1.2.2015, (http://www.thehindu.com/business/idfc-bandhan-get-inprinciple-nod-to-set-up-banks/article5863268.ece)
[27] RBI Circular Number - RBI/2012-13/461
RPCD.RCB.RRB.AML.BC.No.71/07.51.018/2012-13, April 01, 2013, *At*, http://rbidocs.rbi.org.in/rdocs/Notification/PDFs/KYCAMI010413.pdfLast visited on 1.11.2015.
[28] Last visited on 2.4.2015,(http://www.rd.ap.gov.in/velugu/pdf/Velugu_Progress_Report.pdf)
[29] *Ibid.*

There has been a spurt in the governmental role in the establishment of SHGs. NABARD figures would show an increasing role of banks in the promotion and financing of SHGs and financial inclusion.[30]

The *Velugu* project was mooted in the late 1990s and by 2002 it had created one and a half years. The background to this was that Andhra Pradesh is a state that lags behind in development as compared to other Indian states. There is significant presence of rural poverty and under development. Some of the areas of backwardness included low literact levels, infant mortality rates and also intra-district and inter-district disparity. A slew of anti-poverty measures were not enough to bail the state out of the cycle of poverty and it is in this context of rural development that the *Velugu* scheme was launched as part of the Vision 2020 document.[31]

One of the ways to intervene was by organizing grassroot level groups that manage themselves at the village level and the sub-district level. This SHG formation strengthens financial management and helps the people gain access to formal credit. The SHG-Bank linkage sought to integrate the group's savings with the formal sector, mainstream banks by enhancing their fund base with the provision of credit.[32] Further, this project also sought to afford health insurance protection and a community-based food security system where tonnes of rice were distributed to over two lac families.[33]

Amidst this background of encouraging microfinance, the Andhra Pradesh Legislative Assembly passed the Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) Act, 2011.[34] This was challenged by entities such as SKS Microfinance Limited, an NBFC, and other MFIs on the grounds that it would be the deathknell to microfinance. The law, briefly, sought to contain the harassment meted out to borrowers at the time of loan recovery by prohibiting MFIs from reaching the doorstep of its customers, prolonged the loan recollection period. This law was meant to protect the interest of SHGs that are so widespread, but it ended up harming the MFIs

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[30] *Id.*
[31] *Id.*
[32] Last visited on 2.4.2015(http://web.worldbank.org/archive/website00819C/WEB/PDF/INDIA_AN.PDF)
[33] Velugu Phase II Launch in sight, The Hindu, 20 March 2003, Last visited on 2.4.2015,(http://www.thehindu.com/thehindu/2003/03/20/stories/2003032003540400.htm Last visited on 2.11.2015.
[34] Court upholds Andhra law on microfinance, Live Mint, 11 February 2013, Last visited on 2.4.2015(http://www.livemint.com/Money/7wOwenOC6G0ozw1b0yOUTJ/Andhra-Pradesh-microfinance-law-upheld-high-court-suggests.html?utm_source=copy)

so much that it sent the state micro finance sector into an unholy dizzy.[35] However, this Act was upheld by the Andhra Pradesh High Court.[36]

Malegam Committee Report

The author shall summarise the recommendations made in the "Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector" that was submitted in 2011. This committee was set up with the view to regulate and size down the microfinance sector in India[37]. As NGOs began to understand that it was become increasingly difficult to get loans and then lend it to the SHGs, they began to convert themselves into NBFCs so as to enable easier access to credit from banks. With the spurt in number of NBFCs, it had to ensure that the sector was properly regulated and controlled.

There was a need for "sturdy and sustainable" institutions that could regulate the system of micro finance. [38] The committee had to look into the definition of "micro finance" and "micro finance institutions" with respect to NBFCs, examine the interest rates and lending, recovery practices, the regulatory framework needed, suitable grievance redressal mechanism and conditions under which loans to MFIs may be called priority sector lending.

Firstly, it said that there should be a separate category titled the "NBFC-MFI". The reasons briefly include how financial inclusion will not be possible in the absence of a strong micro finance sector, and that "fair and adequate regulation of NBFCs" was needed to "protect the interests of the borrowers". An institution that did not qualify to be an NBFC-MFI could not lend more than ten percent (in aggregate) of its assets in the microfinance sector. Further, it laid down the nature of a "qualified asset" – that the loan must not exceed 25,000 INR, that the annual

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35 Microfinance Bill is anti-poor, NDTV, 13 May 2012, Last visited on 2.4.2015(http://www.ndtv.com/article/india/micro-finance-bill-is-anti-poor-says-andhra-pradesh-government-official-210247)

36 Court upholds Andhra law on microfinance, Live Mint, 11 February 2013, Last visited on 2.4.2015(http://www.livemint.com/Money/7wOwenOC6G0ozw1b0yOUTJ/Andhra-Pradesh-microfinance-law-upheld-high-court-suggests.html?utm_source=copy)

37 Regulating Microfinance in India: IFMR Trust's feedback on the Malegam Committee Report, Last visited on 2.4.2015 , http://www.ifmr.co.in/blog/tag/malegam/

38 Tara S Nair, Institutionalising Microfinance in India
An Overview of Strategic Issues, Economic and Political Weekly, Vol. 36, No. 4, Money, Banking & Finance (Jan. 27 -Feb. 2, 2001), p.402.

income of the household of which the borrower is a part must not exceed 50,000 INR, that there must be not collateral amongst other requirements.

Secondly, it suggested that the size of an individual borrowing should be restricted to 25,000 INR (from earlier 10,000-15,000 INR range) since any higher amount would have led to over-borrowing and debt trap. It further recommended that there be a linkage between the amount of the loan and the term for repayment (say, for loans exceeding 15,000 INR the tenure must not be less than 24 months). That loans must be without any collateral was reiterated. It noted that a balance must be struck between lending for household, consumption purposes and lending for income generating activities.

Thirdly, in the process of regulating interest rates and "margin cap", it laid down laid down a "margin cap" of ten percent where the outstanding loan of the MFI of hundred crore rupees at the beginning of the year, and twelve percent when not exceeding a hundred crores and twenty four percent on individual loans. Alongside, it also sought to introduce transparency in the loan agreement including details of borrowing, insurance etc.

Lastly, it sought to deal with multiple-lending, over-borrowing and ghost-borrowers as well. It held that only a member of a Joint Liability Group (JLG) would be given an individual loan, a borrower could not be a member in more than one SHG/JLG, a particular person could not be given credit by more than two MFIs, need for a minimum period between loan grant and the start of repayment.

The author apologizes for her inability to delve into other the recommendations due to paucity of time and space.

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

The Bill was presented in the Lok Sabha on May 22, 2012 and seeks to provide a legislative framework to regulate, monitor and develop the micro finance sector in India. Some of the features of the Bill are as follows

1. The Reserve Bank of India (RBI) would regulate this sector and may set the limits/ceiling on rates of interest on money lent and margin caps of MFIs.

2. MFIs would be defined as "organizations engaged in providing micro-finance services" – it includes any society, institution or company engaged in providing these services but excludes co-operative societies indulging in agricultural/industrial activity and moneylender.[39] Further, MFIs could collect small deposits, "thrift deposits", give insurance and pension services. However, insurance and pension are regulated by separate regulatory bodies in India, but the Bill is silent on how to effectively engage with this complex regulatory framework.

   Therefore, the traditional understanding that NBFCs (NBFC-MFIs) could not accept savings from its customers may be changed.
3. The Bill further necessitates that any institution providing microfinance has to register itself with the RBI since it has to ensure that this institution is actually providing microfinance services and has a net-owned fund of atleast 5 lac INR.
4. A Micro Finance Development Fund would be created comprising grants from the government, donations, interests made out of investments etc. This will be used in to provide any micro credit facilities to any MFI. Further, this Fund shall be handled by the RBI allowing this Fund to be a shareholder /creditor of an MFI. The Narasimhan Committee (II)[40] said that this was inconsistent since the RBI was the regulator so it cannot have ownership over the bank. There would be a conflict of interest if this happened.
5. The creation of a grievance redressal mechanism for the MFI clientale was discussed.
6. Keeping in mind the Andhra Pradesh fiasco in loan recovery, the Bill, in pursuance of the Malegam Committee suggestions, provides for "fair and reasonable methods of recovery" – without going into details of the same.
7. At the end of the financial year, the MFI has to submit a record of its transactions (accounts of profit and loss) to the RBI for auditing.

These are the broad features of the Bill. Many of its clauses are in tune with the tenor and tone of the Malegam Committee Recommendations. As with the Committee Report itself, if

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[39] Legislative Brief , The Micro Finance Institutions (Development and Regulation) Bill, 2012, PRS Legislative Research.

[40] Report on Banking Sector Reforms, Narasimham Committee II, Reserve Bank of India, 1998.

the Bill is passed, it would be a major game changer for the Micro Finance Sector in India bringing in the much needed regulation, monitoring and control.

However, the Parliamentary Standing Committee on Finance, headed by Yashwant Sinha, preferred to reject this draft Bill on the grounds that sufficient groundwork had not been done[41]. Some of the recommendations in the Report are as follows. *Firstly*, that there was a need for client protection from concerns like multiple lending, over-indentedness and co-ercive collection, but this was absent in the Bill. *Secondly*, the question arose if the RBI is the right entity to regulate this sector, and the Committee Report prefers the creation of an independent regulator called (most likely) the Micro Finance Regulatory Authority so that the burden on the already over-burdened RBI reduces.[42] *Thirdly*,it calls for a national policy on financial inclusion. [43]

Prime Minister Narendra Modi's pplan on extensive financial inclusion through the Jan Dhan Yojana will give a much needed push to the Micro Finance sector in India. Since the programme involves small tickets, MFIs can help in opening of bank accounts and expand their growth potential. It is estimated that the loan book could reach an astounding figure of around 25,000 INR.[44]

Part III

Conclusion

In conclusion, the author would like to submit that the boost given to those who fall on the side of informal access to credit with the introduction and booming of Micro Finance in India. With the formation of Self-Help Groups, individuals who could not otherwise afford to get credit have been linked to the banking system and now can avail institutionalized credit.

[41] M Rajshekhar , Why the Standing Committee on Finance rejected the MFI Bill Economic Times, Feb 18, 2015, Last visited on 2.4.2015(http://articles.economictimes.indiatimes.com/2015-02-18/news/47451133_1_mfi-bill-microfinance-bill-mfin)

[42] M Rajshekhar , Why the Standing Committee on Finance rejected the MFI Bill Economic Times, Feb 18, 2015, Last visited on 2.4.2015 (http://articles.economictimes.indiatimes.com/2015-02-18/news/47451133_1_mfi-bill-microfinance-bill-mfin)

[43] *Ibid.*

[44] Microfinance Institutions Lap Up PM Modi's Financial Inclusion Drive , NDTV Profit, August 2015, Last visited on 3.2.2015(http://profit.ndtv.com/news/industries/article-microfinance-institutions-lap-up-pm-modis-financial-inclusion-drive-651151?ndtv_alsoread)

Further, with the RBI intervention in this regard, there arises a need for a stronger regulatory framework – one that takes into consideration the needs and demands of ground reality such that it does not hamper the aim of financial inclusion.

The Malegam Committee Report did suggest a few changes, and the then RBI Governor Dr. D. Subba Rao has shown his keenness of its implementation.

The Micro Finance Institutions (Development and Regulation) Bill, 2012 has further brought it further suggestions to regulate this sector. However, even this is not ridden of flaws. There needs to be greater deliberation so that the Micro Finance Institutions (MFIs) are able to grow and sustain themselves as well as ensuring that the people of the country have proper and formal access to credit at all times.

Thus, it needs to be seen whether the new government shall follow in the footsteps of its predecessors or will take a fresh perspective of the situation of Micro Finance in India, especially after the launch of the *Pradhan Mantri Jan Dhan Yojana* last year.