Poor need less safety norms?

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The NABARD (Amendment) Bill, 2006 is said to be tabled in the forthcoming session of the Parliament. The bill relates to regulation of microfinance organisations (MFOs). The rationale for the proposed amendment is that poor households do not have access to basic financial services, that the microfinance sector offers these, that the sector lacks a formal framework and that this can be facilitated by expanding the role of NABARD. The preamble, however, fails to outline what is lacking in microfinance regulations, what are the impediments to the sector's growth, and more importantly, how the proposed amendment to the NABARD Act will remove these. Let us examine some key proposed amendments.

■ NABARD, rather than the RBI, would now regulate the new MFOs. RBI has so far been regulating the collection of public savings and organisations authorised to do so are subject to the prudential norms set by the RBI from time to time, with a view to the safety of small savings. MFOs, however, would be regulated by NABARD and not RBI. To begin with, ever since its separation from the RBI half a century ago, NABARD has played a promotional rather than regulatory role. What is the basis of the belief that RBI, which has performed its regulatory task extremely well since independence, cannot regulate microfinance organisations, while NABARD can do so? NABARD has been extending loans and refinance facilities for organisations engaged in microfinance, including banks and apex financial organisations. There is a likely conflict of interest in the two roles: the commercial one of refinancing microfinance and the regulatory role now envisaged for it.

NBFCs must have at least Rs 2 cr of capital, so why do micro finance firms need to have just Rs 5 lakh — do the poor need less protection?

■ New MFOs will have a lower capital base. Currently, only organisations authorised by the RBI can accept public deposits. NBFCs need a minimum equity base of Rs 2 crore. New MFOs will be registered charitable societies or trusts, and will need only Rs 5 lakh to register. The savings of poor households, the said clients of MFOs, are called 'thrift' and not 'savings'. Has a change of vocabulary been used to dilute the safety norms for the savings of these more vulnerable groups in society?

■ Savings (or "thrift") of individuals, group members and poor women must all enjoy the same protection that bank/NBFC deposits enjoy, failing which the vulnerable sections of the population — MFO clients — may be subjected to greater risk of malpractices by unscrupulous MFOs. This danger is less in the case of cooperatives which are member-owned and member-managed. But as the MFO management is not with the members, reduction of capital base of the organisation would be putting the savings to undue risk.

■ Another provision that defies understanding is Section 41 R, which authorises NABARD to exempt any one or group of MFOs from any or all provisions of the Act. The Act's provisions must apply equally to all the organisations that come its purview.

■ Finally, given the well-diversified banking structure in India, where even microfinance needs are increasingly being served by the banking sector and the SHG-bank linkage programme is showing good results, the need for another special organisation is questionable.

Given the dangers that the proposed bill poses to depositor safety, there is a need for a wider debate on it.

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