Malegam Committee - Economy Notes for UPSC

The Reserve Bank of India formed a sub-committee in order to study the Microfinance sector regulated by the bank. Microfinance is an important topic for the IAS Exam and is included under the GS-III section of the UPSC Syllabus. Candidates can also download the notes PDF at the end of this article.

For UPSC Aspirants, it is important to know which ministry and committees deal with what issues and concerns as this can be asked in the UPSC Prelims exam. It is also important to know these details because it helps in understanding how the government machinery works in India.

Microfinance

Microfinance is an economic development tool whose objective is to assist the poor to work their way out of poverty.

- It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counselling, etc.
- For the purposes of the Malegam Committee report, the Sub-Committee has confined itself to only one aspect of Microfinance, namely, the provision of credit to low-income groups.

History of Microfinancing

- The term "**microfinancing**" was first used in the 1970s during the development of the Grameen Bank of Bangladesh, which was founded by the microfinance pioneer, Muhammad Yunus.
- In 1976, Yunus institutionalized the approaches of microfinance, along with the foundation of the Grameen Bank in Bangladesh.
- Since in developing countries, a large number of people still depend largely on subsistence farming or basic food trade for their livelihood, therefore, smallholder agriculture in these developing countries has been supported by the significant resources.

Click on the link to read more about Microfinance - UPSC Economics

Malegam Committee

The Board of Directors of the Reserve Bank of India, formed a Sub-Committee of the Board to study matters and concerns in the microfinance sector insofar as they are related to the entities regulated by the Bank. The Sub-Committee was under the chairmanship of Y.H. Malegam.

The terms of mention of the Sub-Committee included framing the description of 'microfinance' and 'Micro Finance Institutions (MFIs)' for the point of regulation of non-banking finance companies (NBFCs) undertaking microfinance by the Reserve Bank of India and giving proper recommendations.

Also, the committee had to look at the widespread activities of MFIs in relation to interest rates, lending and recovery measures to identify trends that impose on borrowers' interests.

Watch and learn: NBFCs & IBC: RSTV – Big Picture

Malegam Committee Recommendations

A separate category of non-banking finance companies was created for those operating in the microfinance sector to be designated as NBFC-MFI.

The committee recommended certain conditions to be satisfied for NBFCs to be classified as NBFC-MFI:

1. Not less than 90% of its total assets (other than cash, money market instruments and bank balances) are in the nature of “qualifying assets.”
2. The income it derives from other services is in accordance with the regulation specified on that behalf.

The following criteria are supposed to be satisfied, for the loan to be a “Qualifying Asset”:	
Loan amount must not exceed 25000 & the total outstanding indebtedness of the borrower including this loan also does not exceed Rs.25,000.	The loan is granted only to a member of a household with an annual income less than Rs.50000.
Loan tenure is not less than 12 months [Loan amount doesn’t exceed 15000] & 24 months [Other cases].	The loan is repayable by weekly, fortnightly or monthly instalments at the choice of the borrower.
The loan is without collateral.	Aggregate loan amount granted for income generation purposes is not less than 75% of the total loans given by the MFIs.