

**GOVERNMENT OF INDIA**  
**MINISTRY OF FINANCE**  
**RAJYA SABHA**  
**QUESTION NO 09.11.2010**  
**ANSWERED ON**  
**ASSESSMENT OF WORKING OF MFIS**

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Shri M.P. Achuthan

Will the Minister of COALCOALCOALCOALFINANCE be pleased to state :-

- (a) whether Government has made any assessment of the working of the Micro-Finance system in the country;
- (b) if so, the details thereof;
- (c) whether Government is aware that certain States are taking steps to regulate the money lending activity of the Micro Finance Institutions (MFIs) and the State Government of Andhra Pradesh has already issued an Ordinance to regulate MFIs; and
- (d) if so, the details thereof and the reasons therefor; and
- (e) Government's reaction thereto?

**ANSWER**

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI NAMO NARAIN MEENA )

(a) to (e): The main models of micro finance that are being practiced in India are the Self Help Group(SHG) - Bank Linkage Model and the Micro Finance Institution (MFI) - Bank Linkage Model.

The SHG - Bank Linkage Model has SHGs which usually have 15-25 members. Small regular savings in the bank form an essential part of the group activity. This saving is revolved/lent among the members. This model involves the SHGs being financed directly by the commercial banks, Regional Rural Banks (RRBs) and Cooperative Banks. As on 31 March 2010, there were more than 69.5 lakh saving-linked SHGs and more than 48.5 lakh bank credit-linked SHGs and thus about 97 million poor households have been covered under the programme.

The MFI - Bank Linkage Model covers financing of Microfinance Institutions (MFIs) by banks and other institutions for on-lending to small borrowers, who may sometimes be organized into joint liability groups. MFIs source their funds mostly from Banks, Small Industrial Development Bank of India (SIDBI) and National Bank for Agriculture and Rural Development (NABARD). The penetration of the Microfinance Institutions is the maximum in six States i.e. in the States of Andhra Pradesh, Tamil Nadu, Karnataka, Orissa, Maharashtra and West Bengal.

The Andhra Pradesh Government has on 15.10.2010 promulgated the Andhra Pradesh Microfinance Institution (Regulation of Money Lenders) Ordinance, 2010 to regulate the lending practices of the MFIs. The ordinance requires the MFIs to specify the area of their operations, the rate of interest and their system of operation and recovery while registering with Registering Authority. The Micro Finance Institutions have challenged this Ordinance in the Andhra Pradesh High Court.

Recently, RBI has set up a Sub-Committee of the Central Board of Directors of the Reserve Bank under the Chairmanship of Shri Y.H. Malegam, a senior member on the Central Board of Directors of the Reserve Bank of India to study the issues and concerns in this sector, including ways and means of making interest rates charged by them reasonable. The Sub-Committee is expected to submit its report in three months.