

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

RAJYA SABHA

QUESTION NO 09.11.2010

ANSWERED ON

ROLE OF MICRO FINANCIAL CREDIT AGENCIES IN RURAL AREAS

31

Shri Prabhat Jha

Will the Minister of FINANCE be pleased to state :-

- (a) whether it is a fact that the Micro Financial Credit agencies have played a leading role in providing loans to poor persons in the rural areas of the country during the past few years;
- (b) if so, the details thereof during the last three years; and
- (c) the details of the efforts being made by Government to make the Micro Financial credit agencies reduce their interest rates?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI NAMO NARAIN MEENA)

(a) to (c): The main models of micro finance that are being practiced in India are the SHG - Bank Linkage Model and the 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, 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 with loans outstanding of Rs.27,950 crore. Thus about 97 million poor households have been covered under the SHG-Bank linkage model of microfinance.

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. NABARD has reported that during the year 2007-08, 2008-09 and 2009-10 the banks have disbursed Rs. 1970.14 crore, Rs. 3732.32 crore and Rs. 8062.27 crore, respectively to MFIs. In addition, Small Industrial Development Bank of India (SIDBI) has provided loans to the extent of Rs. 2665.75 crore in 2009-10 to MFIs.

The Government of India had in September, 2010 written to all Chief Executive Officers of Public Sector Banks advising them to ensure that the rates of interest charged by the MFIs to the eventual beneficiaries are reasonable. The Banks were also advised to ensure that MFIs do not resort to ever greening of the loans. In this regard, the RBI through its Masters Circular on the Fair Practice Code dated July 1st, 2010, advised NBFCs that though Interest Rates are not regulated by the RBI, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be confirming to normal financial practice. The Boards of NBFCs were therefore advised to lay out appropriate principles and procedures and determine interest rates, processing and other charges. The RBI has in October 2010 set up a Sub-Committee of the Central Board of Directors of the Reserve Bank to study the issues and concerns in the microfinance sector.