

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
RAJYA SABHA
UN-STARRED QUESTION NO. 540
TO BE ANSWERED ON TUESDAY, 07th FEBRUARY, 2023/ 18 MAGHA, 1944 (SAKA)

MICRO FINANCE INSTITUTIONS

540: SMT. JEBI MATHER HISHAM

Will the Minister of FINANCE be pleased to state:

- a) whether Micro Finance Institutions (MFIs) have become one of the best tools for reducing poverty in the country, if so, the details thereof;
- b) the actual interest rate at which MFIs borrow from nationalised, scheduled Banks and other financial institutions; and
- c) whether it has come to the notice of Government that exorbitant interest rates are being imposed on micro credit by MFIs, if so, whether Government has made a fruitful intervention in ensuring that such huge interest are not getting imposed on marginalised sections who avail loans from MFIs, if so, the details thereof?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(DR. BHAGWAT KARAD)

(a): Micro finance institutions (MFIs) *viz*; Small Finance Banks (SFBs), Non-Banking Financial Companies (NBFCs) and Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) are licensed by the Reserve Bank of India (RBI) and are referred to as Regulated Entities (REs). Microfinance Institutions Network (MFIN), an RBI appointed Self-Regulatory Organisation (SRO), has informed that as on 30.09.2022, collectively REs have provided collateral free loans amounting to Rs. 3,00,974 crore to around 6.17 crore clients from low-income households (LIHs) to meet their overall credit needs. Thus, MFIs are an important channel to improve the livelihood of the poor in the country.

(b) & (c): RBI, being the regulator of all the financial MFIs including NBFC-MFIs, had already issued the regulatory framework on pricing of microfinance loans on March 14, 2022, wherein each regulated entity shall put in place a board-approved policy regarding pricing of microfinance loans. These directions, *inter alia*, cover a well-documented interest rate model for arriving at the all-inclusive interest rate; delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters; range of spread of each component for a given category of borrowers; and a ceiling on the interest rate and all other charges applicable to the microfinance loans. Further, as per the information provided by RBI appointed SROs i.e. MFIN and Sa-Dhan, while average cost of funds from Nationalized Scheduled Banks/ Scheduled commercial banks is currently in the range of 9% to 12%; the corresponding average cost of funds from other NBFCs is in the range 12 % to 15%.
