

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF FINANCIAL SERVICES  
**LOK SABHA**  
**UNSTARRED QUESTION NO.1651**  
ANSWERED ON MONDAY, 10<sup>th</sup> MARCH, 2025/ PHALGUNA 19, 1946 (SAKA)

**NPAs OF MICROFINANCE INSTITUTIONS**

1651. SHRI MAGUNTA SREENIVASULU REDDY:

SHRI GAURAV GOGOI:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government is aware of the rising delinquencies in India's microfinance sector particularly in the top States and the increase in the portfolio at risk (PAR) for overdue loans;
- (b) if so, the steps taken by the Government to address the growing non-performing assets (NPAs) in the microfinance sector, especially in the 31-180 days overdue category;
- (c) the details of the NPAs of microfinance institutions or small finance banks in India along with the value of the reduction in NPAs of such institutions due to loan write-offs during the last five years, year-wise;
- (d) whether the Government is considering curbing the increase in loan delinquencies in microfinance institutions and preventing further deterioration in PAR and if so, the steps taken by the Government to ensure that such institutions follow proper risk assessment and compliance criteria while granting loans;
- (e) whether the Government is considering relief for such institutions facing an increase in bad loans and if so, the details thereof; and
- (f) whether the Government plans to conduct an audit of loan netting practices deployed by such institutions to hide the true extent of NPAs and if so, the details thereof?

**ANSWER**

MINISTER OF STATE IN THE MINISTRY OF FINANCE  
(SH. PANKAJ CHAUDHARY)

(a) to (d) Reserve Bank of India (RBI) continuously monitors the activities and performance of microfinance sector. Several initiatives aimed at resolution of stressed assets as well as for timely identification and rectification of stress have been taken RBI. Also the banks' Boards entrusted with the responsibility of ensuring effective oversight.

Credit to the microfinance sector has moderated in the current financial year due to RBI's pre-emptive measures to address the risks in the system. The microfinance sector is showing signs of stress in the current financial year.

In the segments witnessing enhanced slippages, RBI had taken proactive measures whereby the banks and NBFCs have been advised to strengthen their underwriting standards and at the same time, step up their collection efforts so that any prevailing stress does not translate into NPAs.

RBI has continued to engage with its Supervisory Entities (SEs) and the Micro Finance Institutions – Self Regulatory Organisations (MFI SROs) for taking adequate steps for sensitizing their members to ensure adherence to the prudential guidelines, especially those related to household income assessment and the repayment obligation towards a net monthly income. Any non-compliance observed are taken up with for rectification apart from initiating supervisory/ enforcement action, as may be necessary.

Information on 'Gross Loans and Advances', "Gross NPAs' as reported by Small Finance Banks and NBFCs-MFIs (in Upper and Middle Layer) and 'Reduction in NPAs-due to write-offs during the period' as reported by Small Finance Banks as on March 31,2020, March 31, 2021, March 31,2022, March 31,2023 and March 31,2024 is provided in the **Annex-1**.

*(Data on 'Reduction in NPAs due to write-offs' is not available for NBFCs).*

(e) At present, no such proposal is under consideration.

(f) RBI has advised all SCBs (excluding RRBs) and Small Finance Banks to ensure the completeness and integrity of the automated Asset Classification (classification of advances/investments as NPA/NPI and their upgradation), Provisioning calculation and Income Recognition processes through automated IT based system. Further, RBI has included 'loans and advances' in the Minimum areas of coverage under Concurrent Audit for banks. In addition, RBI has advised the Statutory Auditors of the banks to give emphasis on the credit risk areas of the banks, more specifically effectiveness of the system for compiling data relating to NPA and their provision, data integrity and comments to be provided on the procedure followed by the banks in upgradation of NPAs, in the half yearly Long Form Audit Report.

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**Data of Small Finance Banks and NBFCs-MFIs (in Upper and Middle Layer)***Amount in ₹ Crore.*

Period	Small Finance Bank Group			NBFCs-MFIs			
	Gross Loans and Advances, (as on)	Gross NPAs, (as on)	Reduction in NPAs - due to write-offs - (during the period, April to Date)	No. of Reporting Entities (Actuals)	Gross Loans and Advances, (as on)	Gross NPAs, (as on)	Reduction in NPAs - due to write-offs (April to Date)
31-Mar-20	91,509	1,709	669	18	47,059	940	NA*
31-Mar-21	1,11,589	5,971	827	21	64,060	3,240	
31-Mar-22	1,40,003	6,911	2,897	22	77,955	4,350	
31-Mar-23	1,84,808	8,608	3,805	22	1,09,383	2,638	
31-Mar-24	2,29,835	5,590	5,543	24	1,41,599	2,982	

(Source : RBI)

\* As reported by RBI, data on 'Reduction in NPAs-due to write offs' is not available for NBFCs.

**Note:**

1. Data is as reported by Small Finance Banks and NBFCs-MFIs (in Upper and Middle Layer)
2. A major portion of this write offs is due to Technical / Prudential / Advances Under Collection. The banks retain the right to recover from the borrowers in all such cases.
3. The nature and purpose of Write-offs by banks is governed by the following major considerations:
  - a. Once an account becomes NPA, prudential norms require the creation of provisions and on the basis of the aging of the NPA as well as the realizable value of security, these provisions get augmented and reach a stage where the provisions equal the outstanding in the account. So, once these accounts become fully provided, the bank is carrying an asset on one side and an equal provision on the other side. So, as a part of balance sheet management and for tax efficiency, the banks resort to technical write-off as per their Board approved policy.

- b. Write-offs by banks is purely an accounting entry where an on-balance sheet item moves into off-balance sheet items, and they are parked in typically what is known as 'Advances Under Collection' and there are specialized teams which follow-up for the recovery thereafter. The borrower's liability to repay or the bank's right to recover is not diminished in any manner.
- c. Banks focus on such accounts that are parked in a special account to ensure higher recoveries because such recoveries go into aiding the P&L Account and then contribute to the financial well-being of the bank.

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