

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1561
ANSWERED ON:01.12.2006
MICRO FINANCE INSTITUTIONS
Panda Shri Brahmananda

Will the Minister of FINANCE be pleased to state:

- (a) whether the Non-Governmental Organisations (NGOs) have been permitted by the Government to become Micro-Finance Institutions (MFIs) for onward lending to the poor Self-Help Group (SHG) members in the country;
- (b) if so, the number of MFI involved in the SHG financing activities, State-wise;
- (c) whether the MFIs charge high rate of interest on the funds lent to the SHG members; and
- (d) if so, the steps taken /proposed to be taken to regulate interest rates charged by MFIs?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

- (a): NGOs are mostly registered as either Societies under Societies Registration Act 1860 or Trusts under Indian Trust Act 1882 or Non Profit organizations under Section 25 of Companies Act 1956. NGOs undertake micro finance activities including lending to poor as an incidental activity for which specific permission of Government of India is not required.
- (b): It is estimated that there are about 800 MFIs working in the country under various legal forms. The details regarding exact number of MFIs involved in SHG financing is not available since such data is not being compiled by any agency.
- (c) & (d): As per existing guidelines issued in February 2000 by Reserve Bank of India on micro finance to banks, the banks may formulate their own models(s) or choose any conduit/intermediary for extending micro credit. Banks have been advised that it may be desirable for them to deal with micro credit organisations having proper credentials, track record, system of maintaining accounts and records with regular audits in place and manpower for closer supervision and follow up. The interest rate applicable to loans given by banks to micro-credit organisations or by the micro-credit organisations to Self Help Groups/ member beneficiaries are not regulated. However, with more number of players in the Sector, greater competition and the fact that SHG-Bank linkage programme has attained success, it is expected that the interest rates in the sector will become more competitive.