

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:5230
ANSWERED ON:27.08.2010
MICRO-FINANCE COMPANIES
Shanavas Shri M. I.

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has undertaken any study in the recent past to know the problems being faced by the poor people from the micro-finance companies across the country;
- (b) if so, the details thereof and if not, the reasons therefore; and
- (c) the steps taken/being taken by the Government in this regard?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (c): Reserve Bank of India (RBI) has reported that it had requested Small Industries Development Bank of India (SIDBI) to conduct a study on the Micro Finance Institutions (MFIs) operating in Andhra Pradesh. SIDBI has submitted its report to RBI. The SIDBI study has revealed that Non Banking Finance Companies (NBFCs) charge high interest rate and have high net interest margin and return on assets. Further, multiple borrowing and lending exists. The reason for borrowing from multiple sources is the need for higher loan amounts on the part of beneficiaries. Delay in getting loans and insufficient loan amount are the main reasons for borrowing from MFIs.

The Government is aware that the reason for the growth in MFI lending is partly due to lack of adequate formal banking facilities in rural areas. Finance Minister, in the Budget Speech 2010-11 announced a decision to provide appropriate banking facilities to habitations having a population in excess of 2000 by March, 2012. It is also proposed to extend insurance and other services to the targeted beneficiaries. These services will be provided using the Business Correspondent and other models with appropriate technology back up. By this arrangement, it is proposed to cover about 72,300 rural habitations.

Further, a Microfinance Development and Equity Fund has been set up in NABARD with a corpus of Rs. 200 crore. This corpus has been enhanced by another Rs. 200 crore in the year 2010-11. In addition, The Financial Inclusion Fund (FIF) and the Financial Inclusion Technology Fund (FITF) have been constituted with a view to ensuring access to timely and adequate credit and financial services to vulnerable groups, such as weaker sections and low income groups, at an affordable cost. Both these funds have been augmented by Rs. 100 crore each in the year 2010-11.