

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:141

ANSWERED ON:19.11.2010

MICRO FINANCE INSTITUTIONS

Thamaraiselvan Shri R.;Vundavalli Shri Aruna Kumar

Will the Minister of FINANCE be pleased to state:

- (a) the details of the major domestic and foreign micro finance institutions/ companies operating in the country alongwith their annual turnover and interest earned during the last three years;
- (b) whether the said micro finance institutions/companies are charging exorbitant rate(s) of interest from Self Help Groups and farmers and are using unlawful practices to recover their loans leading some of the farmers to commit suicide;
- (c) if so, the details thereof, State-wise including Andhra Pradesh and the reasons therefor;
- (d) whether its Government/Reserve Bank of India (RBI) has constituted any Committee to look into the working of the micro finance institutions/companies in the recent past;
- (e) if so, the details thereof alongwith the time by which the Committee is likely to give its report;
- (f) whether the Government/RBI proposes to set up any regulatory authority to regulate the functioning of the micro finance institutions/companies; and
- (g) if so, the details thereof and if not, the reasons therefor alongwith the other steps taken/being taken by the Government in this regard?

Answer

THE MINISTER OF FINANCE (SHRI PRANAB MUKHERJEE)

(a) to (g): A Statement is laid on the Table of the House.

Statement referred to in reply to parts (a) to (g) of Lok Sabha Starred Question No. 141 to be answered on 19th November, 2010 regarding Micro Finance Institutions tabled by Shri R. Thamaraiselvan and Shri V. Aruna Kumar.

(a) to (g): The Reserve Bank of India (RBI) has reported the details of the total assets and interest earned by major Non-Banking Financial Companies (NBFCs) undertaking microfinance, for the last three years, as furnished in the ANNEX.

While RBI does not regulate the interest rates charged, it has issued Instructions on a Fair Practice Code to be adhered to by all NBFCs in terms of which the NBFCs should not charge exorbitant rates of interest and resort to undue harassment viz., persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc. 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 been receiving communications from State Government officials of Andhra Pradesh (AP) and Kamataka regarding overcharging of interest by Microfinance Institutions. The AP Government highlighted the irregularities committed by microfinance institutions operating in the State, which were in severe conflict with their Self Help Group (SHG) - bank linkage programs. The State Government reported that the MFIs were charging usurious rates of interest, using coercive methods for recovery of loans, which matched traditional money lending in the rural areas.

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.

Further, the Government of Andhra Pradesh has promulgated the Andhra Pradesh Microfinance Institution (Regulation of Moneylenders) Ordinance, 2010 on 15th October, 2010. The Ordinance has come into force from the same day. The Statement of Objects and Reasons for this Ordinance states that 'the Government of Andhra Pradesh has made rapid strides in the field of financial inclusion of the rural & urban poor by organizing women self help groups (SHGs) and linking them with the banks for meeting their credit needs. Of late, many individuals and entities have come up styling themselves as Micro Finance Institutions and are giving loans to SHGs at very high or usurious rates of interest and are using inhuman coercive methods for recovery of the loans. This has even resulted in suicides by many rural poor who have obtained loans from such individuals or entities. In the larger public interest and to protect the poor from exploitation, and to regulate the lending of monies to the SHGs by the MFIs, the Government intends to bring into force a law containing the various provisions stated in this Bill in order to check the illegal acts of these MFIs. This Bill seeks to

give effect to the above decision`.

The Reserve Bank of India has since constituted a Sub-Committee of the Central Board of Directors to look into various issues in this sector, including ways and means of making interest rates charged by them reasonable. Shri Y H Malegam, a senior member on the Central Board of Directors of the Reserve Bank of India will chair the Sub-Committee. The Sub-Committee will submit its report in three months. The Department of Financial Services proposes to introduce the Micro Finance (Development & Regulation) Bill, 2010 after taking into account the views of RBI and the Malegam Committee recommendations.