GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:73
ANSWERED ON:25.02.2011
MICRO FINANCE INSTITUTIONS
Lagadapati Shri Rajagopal;Singh Smt. Meena

Will the Minister of FINANCE be pleased to state:

(a) whether the Government has urged the banks to provide loans to the poor directly in the rural areas in order to bridge the huge gap of interest being charged by the Micro Finance Institutions (MFIs);

(b) if so, the details thereof;

(c) whether the Government has received complaints against MFIs for their malfunctioning and default on repayment of loans to banks in the recent past; and

(d) if so, the details thereof and the action taken thereon alongwith the steps taken/being taken by the Government to regularize, stabilize and to check the functioning of MFIs?

Answer

THE MINISTER OF FINANCE (SHRI PRANAB MUKHERJEE)

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

Statement referred to in reply to parts (a) to (d) of Lok Sabha Starred Question No. 73 to be answered on 25th February, 2011 regarding Micro Finance Institutions tabled by Shrimati Meena Singh and Shri L. Raja Gopal, MP.

(a) to (d): The poor in rural India are being provided microfinance mainly through the Self Help Group (SHG) - Bank linkage model and the Micro Finance Institution (MFI) - Bank Linkage Model.

SHG Bank Linkage Model: Self Help Groups (SHGs) are economically homogeneous groups of up to 10-20 members belonging to poor families that are formed to save small amounts of money on a regular basis. The savings of the SHGs are utilized by them for on lending to group members. SHGs are free to determine the rate of interest to be charged on the loans extended by them. The SHGs are financed directly by the banks. As on 31st March, 2010, 69.53 lakh SHGs have Saving Bank accounts with banks and the amount of saving with the banks was Rs.6,199 crore. Under the SHG - Bank Linkage model thrift and savings precede credit. About 9.7 crore rural households have been covered under this scheme. As on 31st March 2010, 48.51 lakh SHGs had loans outstanding with the banks in the country with an average loan outstanding of Rs 57,795 per SHG.

The Government of India and the Reserve Bank of India (RBI) have taken several steps to encourage SHGs:

(i) To give an impetus to microfinance the Reserve Bank of India (RBI) has categorized microfinance under priority sector lending and lending to SHGs has been brought under advances to weaker sections in priority sector lending. Once SHGs attain maturity in handling their own resources, Banks grade them and extend credit to the qualified Groups in multiples of their savings.

(ii) RBI has permitted banks to use the services of Non Governmental Organizations (NGOs)/SHGs, Micro Finance Institutions (MFIs) and other Civil Society Organisations as intermediaries in providing financial and banking services through Business Facilitator (BF) and Business Correspondent (BC) models.

(iii) RBI has advised banks to provide adequate incentives to their branches for financing SHGs.

(iv) The National Bank for Agriculture and Rural Development (NABARD) extends refinance to Banks for on lending to SHGs at a rate of 8.25 % p.a. to commercial banks [7.75% p.a. for financing in NER including Sikkim] and at 7.75% p.a. to RRBs and Cooperatives (subject to periodic revision).

(v) NABARD has introduced training and capacity building of SHGs / grading of SHGs, etc.

(vi) 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 Financial Year 2010-11.

The other type of lending is the MFI − Bank Linkage model which has been growing in the last few years. However, there have been complaints, including in the media about certain bad lending practices indulged in by some MFIs. In view of the recent developments in the Microfinance sector, particularly in Andhra Pradesh, the RBI had in October 2010 set up a Committee to study the issues and concerns of the micro finance sector including ways and means of making interest rates charged by the micro finance institutions reasonable. The Committee submitted its report to the RBI in January, 2011. The Reserve Bank of India has placed the Report in the public domain, and based on the feedback received from all stakeholders, it will take a considered view on the sector. Further, the Department of Financial Services will consider introducing a Micro Finance (Development & Regulation) Bill after taking into account the views of RBI on the Committee's recommendations.

In addition, the Indian Banks Association (IBA) based on the feedback received from the banks had proposed to the RBI in December 2010 that there was a need for extending certain relaxations in the restructuring guidelines of RBI for the MFI sector. The IBA requested RBI for these relaxations in the restructuring guidelines of RBI for the MFI sector as the bank loans to MFIs are mostly unsecured. In January, 2011, RBI extended the special regulatory asset classification benefit to restructured MFI accounts which are standard at the time of restructuring even if they are not fully secured. This relaxation was granted as a temporary measure and would be applicable to Standard MFI accounts restructured by banks up to March 31, 2011.