GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3056
ANSWERED ON:19.08.2011
MICRO FINANCE SECTOR
Ponnam Shri Prabhakar;Siricilla Shri Rajaiah

Will the Minister of FINANCE be pleased to state:

(a) whether the micro finance sector has been facing a severe cash crunch;

(b) if so, the details thereof and reasons therefor; and

(c) the remedial measures 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): Loans in the microfinance sector are being provided mainly through the Self Help Group (SHG) − Bank Linkage Model and the Micro Finance Institution (MFI) − Bank Linkage Model. In the SHG-Bank Linkage Model, SHGs are directly financed by banks. In the MFI-Bank Linkage Model banking agencies finance to Micro Finance Institutions (MFIs) for on-lending to SHGs and other small borrowers. The disbursements by Public sector Banks and Private sector Banks to SHGs and MFIs during last three years (2007-08 to 2009-10)are given as under:

(Amount Rs crore)

	Loans disbursed by Private Sector Banks			Loans disbursed by Public Sector Banks		
	2008	2009	2010	2008	2009	2010
SHG	364.45	209.83	215.40	8484.81	12043.69	14237.90
MFIs	1489.33	3156.99	3762.00	470.82	575.34	4300.74

Source : NABARD (2008,2009 &2010) Status of Microfinance in India

RBI vide its Circular No. RPCD.CO.Plan BC.66/04.09.01/2010-11 dated 3rd May, 2011 has decided to regulate microfinance sector as a separate category. In this connection, RBI advises that bank credit to Micro Finance Institutions extended on, or after, April 1, 2011 for on-lending to individuals and also to members of SHGs/JLGs will be eligible for categorisation as priority sector advance under respective categories viz., agriculture, micro and small enterprise, and micro credit (for other purposes), as indirect finance, provided not less than 85% of total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan, extended for income generating activity, is not less than 75% of the total loans given by MFIs.

Further, the banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines', to be eligible to classify these loans as priority sector loans:

i. Margin cap at 12% for all MFIs.

ii. Interest cap on individual loans at 26% per annum for all MFIs to be calculated on a reducing balance basis.

iii. Only three components are to be included in pricing of loans viz.,

(a) a processing fee not exceeding 1% of the gross loan amount,

(b) the interest charge and (c) the insurance premium.

iv. the processing fee is not to be included in the margin cap or the interest cap of 26%.

v. Only the actual cost of insurance i.e. actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges to be recovered as per IRDA guidelines.

vi. There should not be any penalty for delayed payment.

vii. No Security Deposit/ Margin are to be taken.