

GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
DEPARTMENT OF FINANCIAL SERVICES  
**RAJYA SABHA**

**UN-STARRED QUESTION NO. 540**

TO BE ANSWERED ON TUESDAY, 07<sup>th</sup> FEBRUARY, 2023/ 18 MAGHA, 1944 (SAKA)

**MICRO FINANCE INSTITUTIONS**

540: SMT. JEBI MATHER HISHAM

Will the Minister of FINANCE be pleased to state:

- a) whether Micro Finance Institutions (MFIs) have become one of the best tools for reducing poverty in the country, if so, the details thereof;
- b) the actual interest rate at which MFIs borrow from nationalised, scheduled Banks and other financial institutions; and
- c) whether it has come to the notice of Government that exorbitant interest rates are being imposed on micro credit by MFIs, if so, whether Government has made a fruitful intervention in ensuring that such huge interest are not getting imposed on marginalised sections who avail loans from MFIs, if so, the details thereof?

**ANSWER**

MINISTER OF STATE IN THE MINISTRY OF FINANCE  
(DR. BHAGWAT KARAD)

(a): Micro finance institutions (MFIs) viz; Small Finance Banks (SFBs), Non-Banking Financial Companies (NBFCs) and Non-Banking Financial Company-Micro Finance Institutions (NBFC-MFIs) are licensed by the Reserve Bank of India (RBI) and are referred to as Regulated Entities (REs). Microfinance Institutions Network (MFIN), an RBI appointed Self-Regulatory Organisation (SRO), has informed that as on 30.09.2022, collectively REs have provided collateral free loans amounting to Rs. 3,00,974 crore to around 6.17 crore clients from low-income households (LIHs) to meet their overall credit needs. Thus, MFIs are an important channel to improve the livelihood of the poor in the country.

(b) & (c): RBI, being the regulator of all the financial MFIs including NBFC-MFIs, had already issued the regulatory framework on pricing of microfinance loans on March 14, 2022, wherein each regulated entity shall put in place a board-approved policy regarding pricing of microfinance loans. These directions, *inter alia*, cover a well-documented interest rate model for arriving at the all-inclusive interest rate; delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters; range of spread of each component for a given category of borrowers; and a ceiling on the interest rate and all other charges applicable to the microfinance loans. Further, as per the information provided by RBI appointed SROs i.e. MFIN and Sa-Dhan, while average cost of funds from Nationalized Scheduled Banks/ Scheduled commercial banks is currently in the range of 9% to 12%; the corresponding average cost of funds from other NBFCs is in the range 12 % to 15%.

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