

Budget and microfinance

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The high points of the budget have been the farm loans waiver and the interventions in the social sector. While in the previous budgets, microfinance had found repeated mention in the budget speech, the present budget does not make too many direct references to the same. Still some of the measures announced in the budget have implications for microfinance and its clients. The social sector interventions mentioned in the budget are likely to have considerable impact among the poor.

The important reference made in the budget to microfinance is in relation to the Self Help Groups. The finance minister had referred to Report of the Committee on Financial Inclusion and the government's initial acceptance of two recommendations. One of the recommendations is on achieving total financial inclusion in respect of clients, implying meeting all loan needs of clients. He has asked all commercial banks to follow the example set by some of the banks in financing all the loan needs of all the SHGS such as for income generating activities, housing, education, marriage and also debt swap. While banks have been generally financing SHGs without questioning the purpose, housing loans were made as longer term special loans, but only in a few cases.

The introduction of "debt swap" is an interesting idea. Perhaps this is influenced by the extent of borrowing that rural people have made from the informal sector. The high interest cost debt burden has been the bane of rural poor. Most parts of their income end up in interest servicing and the principle remains beyond their means to repay. Bank loans would carry lower costs (than informal sector loans) and where necessary could have longer maturity periods. Typically debt swap loans should be of longer term; with installments so determined as to be within the repayment ability of the SHG members.

Banks would find it difficult to determine the individual requirements of SHG members for the "debt swap" loans and establish the veracity of the need for loans. Since the SHGs are involved, they can be charged with the task of determining the borrowings made from informal sources by the members and propose appropriate repayment terms (installment amount as well period of loan). SHGs should also ensure that the "debt swap" loan taken by the members is actually utilized for repayment of their debt to money lenders and other such informal lenders. The "debt swap" would strengthen income retention in the hands of the poor who had borrowed on disadvantageous terms for their emergent requirements. This would also help

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those who had mortgaged their small holdings for obtaining such loans to redeem their lands.

The coverage as envisaged in the budget for “debt swap” is only to those who are members of SHGs. There are several poor clients with borrowings from informal sources that are not members of SHGs. Without any access to any formal finance, they are placed even more precariously and subjected to extortionate practices of lenders. The scheme could be extended through the SHGs to all those who have borrowed from the informal sector on high interest rates. The SHGs could be made use of as facilitators by banks to assess the “debt swap” loan needs of those who are not members of SHGs and also for loan monitoring and follow-up.

The other major initiative announced was the coverage of all SHG members by Life Insurance Corporation with the *Janshree Bhima Jojana* for insuring life and disability. Presently this scheme covers about 1% of self help groups in the country – 35000 out of more than 3 million groups in existence. If these groups are targeted and covered, it would greatly mitigate life risks for the families, where loss of the income earner is a severe blow. The numbers to be covered under the *Janshree Bhima* scheme could be overwhelming. The 3 million SHGs could have as much as 45 million members. The task of underwriting their lives would require considerable mobilisation of resources and personnel. In fact LIC would do well to enroll the services of NGOs and MFIs to facilitate the process and its expeditious completion. The allocation made in the budget could also cover investments in appropriate IT solutions that enable client acquisition from remote locations without insurance personnel’s physical presence.

The completion of client acquisition formalities, collection of premium, servicing of policies and documentation of claims could all be outsourced to NGOs, MFIs, etc. Without such outsourcing and IT support at the facilitating agency levels, it might be difficult to reach the large number of prospective clients.

A related announcement pertains to micro health insurance. The National Health Insurance Scheme would cover all workers in the unorganized sector. They would get a cover of Rs 30000 towards treatment of illnesses and hospitalization. As per the scheme the government would subsidize the premium paid by the people below poverty line through placement of a fund with the insurance company for the purpose.

On financial inclusion, each rural and semi-urban branch is required to add 250 new rural households as clients each year. The concept of credit counselor has been introduced and the banks have been encouraged to appoint retired bank officials and others as banking facilitators and credit counselors to provide guidance to the new prospective clients. At the end of March 2007, there were more than 47000 rural and semi urban branches of commercial banks. Given the budget mandate, the banks would enroll 11.75 million new

accounts each year and over the next five years, nearly 60 million accounts. Presently there are less than 50 million deposit accounts and less than 13 million loan accounts with the commercial banks. The effort required from the banking sector over the next five years is more than equal to what they have achieved over the last fifty years. The costs of inclusion of such large numbers would be significant and high. Not all the business resulting from the inclusion initiative would be profitable. The government has established a fund to finance the technology requirements of inclusion. Use of IT is a clear need and without it inclusion of new clients of such a large order might not be feasible. The Rs 5 billion fund should help banks to access suitable technology products that would lower costs of client acquisition from widely dispersed locations.

The existing old age pension scheme has been expanded to cover all persons above 65 years and living below the poverty line. This would now cover an estimated 15.7 million people. Further the National Rural Employment Guarantee Scheme has been extended to all the 596 districts in India. This scheme provides an assured employment of 100 days per year to those needy at the minimum wages fixed by the government. In times of natural calamities, the scheme would provide relief from liquidity stress to poor families. The delivery aspects of the scheme are still being fine-tuned to make it more effective. This would offer opportunities for SHGs to be formed and savings habits to be initiated on account of the income assurance given by the scheme.

A notable omission is any reference to the Microfinance bill. The bill introduced in the parliament sometime back, has been the subject of debate in the sector as also a standing committee of the parliament. No conclusive position seems to have been taken as yet on the bill.