One Step Forward or Two Steps Back?

Proposed Amendments to NABARD Act

The proposed amendment to the National Bank for Agriculture and Rural Development Act, 1981 that seeks to provide a formal framework for the microfinance sector does not take a gender or empowerment perspective, but rather, a supply dominated view of microfinance.

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There are speculations that a bill is likely to be presented in the first week of the budget session of Parliament: the National Bank for Agriculture and Rural Development (Amendment) Bill, 2006, which would amend the NABARD Act, 1981(amended thereafter in 1985, 1988, 2000 and 2003). The rationale of the proposed amendment is that the microfinance sector has brought much needed financial services to the poor, and that the sector lacks a formal framework which would be provided by the proposed amendments. Interestingly, it does not elaborate on what is lacking, but proceeds to suggest amendments. Let us therefore examine what have been claimed, as also the constraints to the expansion of the microfinance sector, the counterarguments, and then examine the likely impact of the proposed amendments from the point of view of poor women. It is important to state here that most microfinance programmes in the country are currently delivered through women's self-help groups (SHGs), constituted of 15 to 20 women, who come together to save their money, extend small loans from it, and access additional loans from the formal banking sector or NGO/microfinance organisations (MFOs).

Proponents of reforms argue that there is an unmet demand for credit [Mahajan 2003; Sinha 2000], believing that NGOs with little or no previous experience as MFOs can reach the poor quicker than the commercial banking network [Bose and Ranjini 1998; Jenkins and Goetz 1999]. Another school, equally important, advocates that NGOs should continue to do "social engineering" and banks the banking jobs [Dunford 1998; Otero and Rhyne 1994; Rutherford 2000; Fernandez 2003; Gibbons 2003]. Thus, while the proliferation of microfinance has been credited with enabling the establishment of sustainable MFOs [CGAP 2002], it has also faced criticism regarding its "instrumentalisation" of poor women to meet the ends of neoliberal capital expansion [Fernando 2006; Kalpana 2005]. Those who have examined the impact of microfinance from a gender perspective have long alleged that the participation of women in these programmes needs to be examined in "a distinctly political light – raising issues of power, not just productivity" [Goetz and Sen Gupta 1996: 47], and that women's own leadership and accountability does not even appear as a concern [Rajagopalan 2004].

Should NGOs Take Up Banking Services?

The proposed amendment does not take a gender or empowerment perspective but rather a supply dominated perspective of microfinance. With the objective of extending the outreach of microfinance, the bill seeks to enable trusts and charitable societies to take deposits from individuals and SHGs, subject to their authorisation by NABARD as MFOs. However, these organisations are not "banking" institutions, nor non-banking financial companies (NBFCs), because they neither have the required capital nor the ability to ensure compliance with RBI's norms. They have been allowed a lower level of capitalisation of Rs five lakh according to the amendment. Assuming that the proponents of the bill see this as a step forward, I pose two critical questions:

– When the banking sector has already proved its intention and ability to reach poor women's SHGs, especially over the past few years, why are charitable institutions to engage in provision of banking services? – What would be the impact of the provisions of this bill on women's empowerment?

To begin with, we need to ask whether the RBI's norms are the problem, or whether it is the ability of these organisations to comply? If the norms are acceptable for the regular citizens of India, why should they be diluted for the poor (read illiterate, poor, women), who are to be served by these NGOs? Why should the poor be subject to a lower level of protection for their meagre savings? [Premchander 2007].

The next logical question is why those who seek to promote microfinancial services do not invest in improving the quality and number of already existing institutions: e g, commercial and regional rural banks, cooperatives and NBFCs? If there is a problem with the outreach of existing institutions, it may be good to examine these, rather than introduce a new type of institution, which is not a banking institution at all, to provide banking services. Even if the argument for the initiation of such a move may have been the low outreach of banking organisations to the rural poor, we may do well to remember that there is now widespread recognition of the fact that the microfinance services do not always reach the poor [Tripathi 2006; Kalpana 2005]. Also, the amendment fails to recognise the fact that public sector banks and regional rural banks have extended outreach to women's SHGs tremendously over the past few years [Ghosh 2005], making the SHG-bank linkage programme of India the largest in the world, having provided loans to over one million SHGs so far. This is evidenced in the table.

Table : SHGs Provided with Bank Loans

Bank	Cumulative No of SHGs Provided with Bank Loans up to March 2001	Cumulative No of SHGs Provided with Bank Loans up to March 2004
Public sector bank	118855	516697
Private sector bank	5391	21725
Regional rural bank	84775	405998
Cooperatives	12773	134671
Total	221794	1079091

Source: NABARD cited in Ghosh (2005).

When we have achieved singular success in reaching poor women through our regular banking institutions, and when they are beginning to recognise poor women's groups as an important market, when we have institutions that follow prudential norms, what is the compulsion to introduce a new law, dilute the safety of public deposits, and allow hitherto charitable organisations and trusts to engage with banking operations when we have in India one of the most diverse banking structures in the world?

Creating MFOs or Disempowering Women?

Currently, NGOs are facilitators of SHGs; they help to form, train, and link them to banks. Typically, NGOs are the self-help promoting institutions (SHPIs) and banks are the providers of finance. While many bank officers have from time to time engaged with group formation, the dominant pattern is that NGOs facilitate, while banks extend financial services, both savings and loans. NGOs facilitate the linkages even with insurance services, and they play an important role in helping SHGs to gain information and evaluate different services offered by financial organisations. The separation of facilitator and banking roles has so far worked to the advantage of women, especially when they are poor and illiterate.

Currently, NGOs typically facilitate group formation and bank linkages. Women's SHGs deposit their money in bank accounts, and/or rotate it as loans among themselves. This scenario will change when NGOs themselves are authorised to take women's savings as deposits.

First, banks grade groups according to their financial management, and extend loans, without appropriating women's savings. This allows the women to use their own money for their priority needs, e g, education, medical treatment, food purchases, etc. When NGOs take the savings, and extend loans instead, all the money will be spent on purposes approved by the lender, which is often limited to business: and cash income generating activities. Women will lose control over the spending of their own money.

Second, currently women return these loans when other women need the money, or when they have cash to repay (for instance in harvest time, or when the son returns from migration). Many SHGs extend a three-year repayment period. Both these features allow the loans to stay in rotation on which the SHG can continue to earn interest. Now, with the loans from the new MFOs, the dominant repayment pattern will be the one borrowed from the Grameen Bank model – of returning the loans within one year. This will put pressure on the women during the lean agricultural season when most cannot find work in dry, poor and remote regions. The poorest then, will continue to be untouched by the MFOs driven by profit motives, as they are now.

Finally, presently, women capitalise all their interest earnings. They often charge themselves 6 to 12 per cent per annum over and above the bank interest rate (usually between 9 and 14 per cent pa). They share this money during the lean months, or rotate it further as loans. Enter the new MFOs; the interest earning will go to the MFO instead of the SHG. Women's money, their own capital, will be used by the MFOs to make money! What irony that these would be registered as charitable trusts and societies! Both control and access to savings will become difficult. Empowering processes will stop and dependence will begin.

In the current scenario, only banks and NBFCs can take public deposits; there is some space for women's SHGs and women-owned organisations like cooperatives to operate. With the entry of new MFOs those who do not have either the competence or the capital base to manage deposits (trusts, charitable societies, with Rs five lakh as minimum capital) will compete for poor women's meagre savings, and endanger their safety. Women may lose out both on empowering processes and their capital!

The advances made in rural banking will be undermined, and women's empowerment will now take a backseat. The intended step forward, towards greater supply of financial services through non-banking institutions, may indeed mean two steps backwards, in terms of the safety of small deposits and the empowerment of poor women.

Some Critical Questions

We may like to consider that the regulatory constraints that prevent NGOs from taking public deposits may in fact be well placed to protect small savings, and poor women's savings, even if they are called 'thrift' as per the new bill, may deserve the same protection. Therefore, it is necessary to recognise that banking is a specialised job, and those NGOs who have both the capital and the capability, and therefore qualify for credit rating as NBFCs, could indeed be allowed to transform. For the rest, it may be wiser to let them continue as NGOs and as facilitators of women's groups.

The risk of NGOs transforming into MFIs is that a shift of public investment (donor and government funds) from human and social capital at the grassroots towards financial intermediation will take place [Berenbach and Churchill 1997; Fernandez 2003]. It is all the more dangerous when those who have so far empowered people and built their organisations, begin appropriating women's capital thus leading to both the financial and social disempowerment of women. EPW

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