

# ‘RECESSION HAS NOT AFFECTED US AS WE DEPEND MORE ON DOMESTIC PSUs’

**E**vangelical Social Action Forum (ESAF) was established in 1992 as a christian response to the social and economic needs of people. ESAF stands for sustainable wholistic transformation of the poor, and marginalised for a just and society. **K Paul Thomas**, Managing Director of ESAF Micro-finance and Investments shares his thoughts with FE.



## What services does MFIs provide to reduce poverty? And how?

From the ESAF point of view we organise poor people into groups and ‘sangams’ to identify their problems in an efficient manner. We give them loans for income generation and consumption and encourage their savings habit through their *sangam* and Apex federation. Savings habit among the poor naturally supports the economy and helps in alleviating poverty. The positive economic features thus entertain social development. As a result they start thinking about education, good homes, healthy food habits etc. We also provide them Business Development Services by imparting entrepreneurship training, skill training and giving them marketing support through our retail outlets. This helps them to increase their income level and collective bargaining capacity. Moreover, the training imparted by us helps them in developing their leadership skills.

## How can MFIs be made more affordable to the poor?

The interest rate can be reduced, if there is an increase in outreach. More outreach means more business volume. In another way, interest rates can be reduced if the government allows the MFIs to accept deposits from their borrowers, which will help them to access low cost funds. Since the role of MFIs in enhancing human capital is considerable, its imperative for the authorities concerned to come up with a feasible mechanism that makes them

more affordable to the poor. Such a move will help MFIs to add to their clientele more credit worthy clients and erase concerns about poverty.

## What should be the guidelines for the functioning of MFIs?

At present Microfinance Non Banking Financial Companies are working under the guidelines of RBI. *Saadhan*— an Association of MFIs in India has published a code of conduct for its member MFIs. But NGO MFI are not controlled by any regulatory authorities. So it is important that Microfinance Regulatory bill, which is hanging fire from 2007,

should be passed at the earliest. All MFIs should be regulated by this Bill. Moreover, NBFC MFIs should be given a separate status by the RBI. Also the RBI should take steps in allowing a lower Capital Adequacy Ratio to MFIs to increase their liquidity.

## What should be the role of the banks in the proper functioning of the MFIs?

The commitment of commercial banks to micro lending has been fragile and not based solidly in its institutional mission. This situation should be changed. Of course, the main role of the banks is to provide adequate funds on time, to meet the requirements of MFIs. They should also bring to an end reduce the red tapes involved in sanctioning of loans. Faster procedures help the MFIs to meet the client requirements faster. This helps in improving the business volume. Hence, the poor clients will be the ultimate beneficiary. Banks need to service the micro-enterprise sector – through financial service innovations that permit a cost-effective analysis of creditworthiness, monitoring of a large number of relatively poor clients, and the adoption of effective collateral substitutes.

**In the General Budget 09, Microfinance is emerging as an**

**influential and high potential industry. Please comment.**

Yes, the Budget 2009 envisioned the same and praised the role of microfinance as an instrument of socio-economic change and development. In the next five years, the government has ambitious plans to enroll at least half of the rural women into the network of self-help group (SHG) movement, besides increasing the corpus funding of the *Rashtriya Mahila Kosh* to Rs 500 crore. The Budget also announced further relaxation of rules for opening small and rural banking facilities by Scheduled Commercial Banks. Other welcome plans from an MFI point of view in the Budget are strengthening the mechanisms for inclusive growth for creating about 12 million new work opportunities per year, reducing the proportion of people living below poverty line to less than half from current levels by 2014 and to easing the delivery mechanism for primary health care facilities with a view to improve the preventive and curative health care in the country. Another important initiative is the restructuring of *Swarna Jayanthi Gran Swaroggar Yojana* (SGSY) into National Livelihood Mission, This will give microfinance sector a new direction.

**What is the role of the government in the upliftment of this sector?**

Now the government has accepted the significance of microfinance through the Budget, so it is obligatory for them to pass the Microfinance Sector Development and



Regulation bill at the earliest. Through RBI, SIDBI and NABARD the government can provide refinancing and infrastructure support to MFIs. Lack of proper infrastructure support is a cause of concern for most MFIs. The government has reiterated their emphasis on upliftment of women in every sphere of life, this surely supports the cause for which MFIs stand.

**How can financial inclusion help in the empowerment of women?**

The best possible way to expand the efforts of financial inclusion is through the empowerment of women. When women starts earning independently they can improve the well-being of their household and educate the children. Sufficient finance also helps them to maintain the health of their children. Moreover, Self Help Groups boost their social networks and community participation. This gives them confidence to survive and express their opinions clearly. Access to finance and assets improve the status of women at home and society. The fact that some of our Sangam leaders grew in ranks to become community leaders at the block/panchayat levels bore testimony to my claims.

**In the context of microlending what is the scenario now in the wake of recession?**

In India economy at the grass root level are still vibrant and MFIs mostly deal with these groups. Hence the repayments are not affected, but the flow of money into the sector from International banks got slightly affected due to recession. The fact that we depend more on domestic PSU banks also reduced the effect of recession on MFIs. But still there is no room for complacency.

**What are your suggestions to the finance ministry to make MFIs more profitable? Should they be given more tax concessions.**

Of course tax concessions are required for MFIs to make more profits. Considering the key role being played by MFIs to balance the economy interest subsidies should be provided. Also Debt Relief Schemes applicable to commercial banks should be made applicable to MFIs as well.

**Microfinance is the new buzz in mutual fund industry in India. How can it set a new dimension to the industry?**

The Mutual Fund companies can utilize the clientele of MF companies. Apart from that mutual fund providers should come with some innovative Systematic Investment Plan schemes which is compatible with the income level of the poor. This allows the poor to enjoy the advantages of investing in capital market. ■