

Reviving the 'loan mela' — differently

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Further empowerment of NGOs in order to promote micro-credit on the cards

Aware of the increasing economic gulf between the beneficiaries of liberalisation and those whom well-known author Franz Fanon once described as the "wretched of the earth," the government wants to make loans available more easily to small and marginal income families. However, unlike in the past when it resorted to the much-maligned loan melas, this time it plans to offer loans more liberally, albeit through the micro-credit route.

■ Empowering NGOs

Section of the IT Act Modifications aimed at

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| 11(4) | ▶ Allowing NGOs to invest in companies undertaking microfinance without adversely affecting their tax status |
| 2(15) | ▶ Permitting the inclusion of microfinance as a charitable activity |
| 10(23) | ▶ Addition of a new section to make capital gains on equity investments in microfinance NBFCs tax exempt |
| 35 | ▶ Allowing NBFCs to treat as admissible the expenses incurred for setting up branches in low financial inclusion areas and to grant them a 150% rebate as an incentive |
| 36(1)(viii) | ▶ Allowing NBFCs to get a tax exemption of 40% of their profits if the amount is kept in a special reserve as is allowed for housing and infrastructure projects |

Lessons learnt

Govt appreciates the role NGOs can play in uplift of weaker sections of the society

But, it won't resort to loan melas, which had resulted in a scam in the eighties

It plans to offer loans more liberally, albeit through the micro-credit route

This is evident from the "interim" recommendations put forth last week by the committee on financial inclusion chaired by C Rangarajan, former governor of Reserve Bank of India. Rangarajan is also chairman of the Prime Minister's economic advisory council.

These recommendations, coming as they do just before the announcement of the annual budget, indicate that the government may empower NGOs a lot more in order to promote micro-credit.

Some of the recommendations are aimed at empowering NGOs to

(a) enable remittance of income earned by migratory workers to their families back home in another part of the country at costs lower than those charged by the post-office's money-order scheme;

(b) encourage NGOs to invest in companies engaging in microfinance; and

(c) encourage NGOs to participate in micro-finance and micro-lending operations far more aggressively than they have till now.

More significantly, the committee has made specific recommendations of some of the sections of the Income Tax Act (see table). If these recommendations are effected by the finance minister in his budget speech, it could actually permit charitable trusts to make investments in private companies once again, and also provide charitable trusts with some financial incentives if they participate in providing credit to rural folk.

It may be recalled that the finance ministry under Indira Gandhi had introduced laws which effectively prevented charitable trusts from owning shares or making any investment in securities other than those (like the National Savings Certificate) approved by the government. These laws also severely curtail the scope of charitable trusts and forbid them from engaging in any activity that can lead to a profit, failing which the trust could lose its tax-exemption status.

It now appears that the government has begun to appreciate the tremendous role charitable trusts and NGOs can play in helping weaker sections of society uplift themselves. One only hopes that the scheme is well-formulated and does not end up in a scam such as the one involving the loan melas in the eighties.