Access, first step to empowerment

By: T K ARUN
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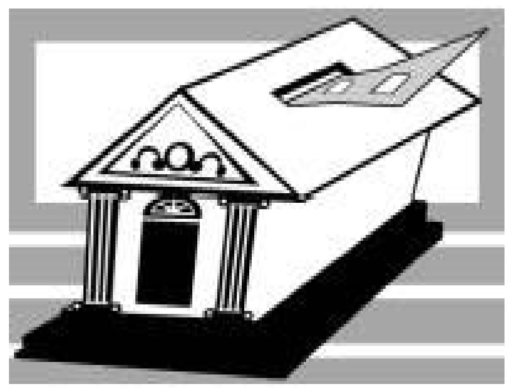
The sensex has soared past 17,000. It doesn't make a difference to Nandoo or his fond little girl, for whom Nandoo is saving up on a regular basis. He calls himself Nandoo, but his real name is Iqbal. He works for a seth who owns a fleet of cars in Ahmedabad. Nandoo is remarkably cheerful, given his lot. He has had to shift his residence, he told this author as he navigated our car through the careening mass of automobiles in perpetual Brownian motion that goes by the name of traffic in this city of malls and multiplexes."The neighbourhood should be pleasant," he explained: you don't want to work yourself up as soon as you wake up in the morning or before you go to sleep, because you hear your neighbours say something nasty about you.



Nandoo's daughter is just three years old. But he has big plans for her future. She will study in an English medium school. And she will study as long and as much as she wants to. He has tucked away enough money to ensure that. How much money does he earn? Rs 3,000 a month from the seth and an extra Rs 2,000 as tips and commissions from shops, where tourists in his charge shop. And does he manage to put away some bit from this earning every month? Yes, he said. But it turns out that he gets some income, as well, from his family back home in the village where they trade in milch cattle. Plus, all the money he got from his wife's family has been put into a fixed deposit. When it matures, the money will go into another FD, and so on till his daughter needs the money, he explained.

Nandoo's ambition deserves respect. To begin with, it must have taken him some enterprise to open a bank account. Banks tend to use 'know your customer' norms to say No to customers like Nandoo. Further, it takes a lot of willpower to save any part of one's income at such low levels of consumption. And in a country where threats to little girls' well being begin when they are little enough to be invisible to the naked eye, Nandoo's enthusiasm to secure his daughter's future is remarkable. But don't Nandoo and his little girl deserve better than the 9% return that a bank's term deposit would fetch them? What has this tiger economy's financial sector got to offer them, to help them share in the prosperity symbolised by the vaulting sensex?

The fact is that the formal financial sector has, for the most part, failed Nandoo and people like him. They can neither borrow from the formal financial sector nor lend it their savings. The only part of the organised financial sector such people have access to is the post office. The post office only helps them save. If they need to borrow, they have to go to the moneylender. Repayment of loans taken to finance assets is about the only form of financial saving open to the majority of the poor. This is grossly dysfunctional and, worse, iniquitous.

Microfinance is a huge boon for the poor. But being able to access funds at a rate of interest lower than the moneylender's is not enough. Someone like Nandoo, who is determined to save regularly even at his level of income, must have an opportunity to mediate his savings to the pool of investment that fetches the highest rate of returns. Not having a financial sector capable of doing this is hugely iniquitous. It boosts inequality, just as surely as inefficient public schools do. The well-off have MFs and insurance companies today competing to offer them high rates of return on their savings. There are no such saving vehicles for people like Nandoo. And the traditional champions of the poor, far from seeking to find a solution to this problem, actively oppose any innovation of the financial sector — in the name of the poor, of course.

This is where the poor need the new pension system proposed in the pension Bill wasting away in Parliament for want of Left support. The original pension Bill envisages a beautiful system of savings for the poor, and those working in the unorganised sectors without the benefit of a provident fund. Even those with the benefit, such as it is, of the provident fund would benefit immensely from the proposed new pension scheme. The Employees' Pension Fund Organisation finds it difficult, after charging an obscenely high 4% asset management fee, to give its savers a return of 9% even as MFs give their investors returns to the tune of 100%. This is because the EPFO steers clear of stocks, the specific form of entitlement to the output of the nation's productive capacity that yields the maximum rate of return in a fast growing economy like India's.

The new pension scheme envisages a single, countrywide record keeper to maintain the pension accounts. Multiple pension fund managers would be able to access funds from these accounts, as authorised by the account holders, and deploy them in stipulated investments, including stocks. The account holder would be free to specify what proportion of the saving should be deployed in risky stocks, and what in safer government bonds. The account holder would be able to switch fund managers, while maintaining the same account.

Nandoo and his daughter need such arrangements. Pension fund reforms call for laws to be passed. MFs and depositories that reach out to the poor do not. Financial inclusion is no longer just about bank accounts.

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