Rural Support Programmes, AKHUWAT and the budget

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It seems there is more action outside the budget than inside. At the post-budget presser, the finance minister went out of the budgetary box to assert that he would not wait for growth to trickle down, something that could take about 20 years even with high growth. His plan is to reach the bottom directly to help them help themselves. Decades of work – by the iconic Shoaib Sultan Khan in Rural Support Programmes (RSPs) and, more recently, the disarmingly charming Amjad Saqib under the banner of AKHUWAT – has demonstrated that it is possible. While at Habib Bank, the finance minister himself tasted its success by wholesaling substantial sums to the National Rural Support Programme (NRSP), the largest of the seven RSPs spread across the country, and to AKHUWAT, with recovery rates of around 98%.

The intention is to scale up. The RSPs and AKHUWAT can't do it on their own. These are non-government organisations whose declared goal is to work with the government. In fact, the NRSP was created by the government itself in the 1990s, but then abandoned for no good reason. It survived and has now its own microfinance bank with a portfolio of around Rs17 billion, the bulk of it to women. Years of economic mismanagement has brought the country to a stage where even the government does not have the resources required to scale up. This is where the banks, awash with profits made from lending to the government, come in. Who better to make the tripartite arrangement than a banker? Banks are too big to lend small. Lack of collateral and the outreach costs are the well-known reasons. In rural areas, the RSPs can provide the outreach and social capital developed in the form of grassroots community organisations can be the collateral. The NRSP has now combined the social and technical aspects for better credit appraisal. AKHUWAT, on the other hand, concentrates on interest-free lending mostly in urban areas. The model is based on government grants and donations for interest-free lending to small borrowers. The role of the government will be three-fold. First, it will provide guarantees to the comfort of the participating banks. Secondly, the banks will enjoy a credit insurance at the rate of 10%. Thirdly, interest cost will be subsidised to the tune of Rs75-100 billion. The loan portfolio could be as large as a trillion rupees.

Within the target group of four million households at the bottom of the Ehsaas database, there will be interest-free business loans of Rs0.5 million, farm loans of Rs0.25 million and Rs0.2 million for tractors and machineries. Housing loans of up to Rs2 million will be given on concessional basis. All will receive the Sehat Card and one person from every household will be provided free technical training. As with many other pronouncements made by the finance minister, the budget may have to be rewritten before his winding up speech. At the moment, the budget shows credit guarantee scheme for small farmers of Rs100 million, crop loan insurance of Rs600 million, Kamyab Jawan/Kissan Programme of Rs 10 billion and mark-up subsidy of Naya Pakistan housing loans of Rs3 billion. This is a far cry from the Rs75-100 billion billed by the finance minister.

Done properly in consultation with the stakeholders, the plan gives hope for bottom-up growth for the non-poor segment of the target group. The poorest of the poor will still need what RSPs call community investment funds lending small amounts to those with meagre or no means.

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