

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2608
ANSWERED ON:09.12.2005
WORLD BANK REPORT
Rao Shri Sambasiva Rayapati

Will the Minister of FINANCE be pleased to state:

- (a) whether the World Bank has held various policies of the Government responsible for a highly inadequate supply of finance to rural poor;
- (b) if so, the details thereof;
- (c) whether in a report titled `Scaling up access to finance for India`s rural poor, the World Bank report has pointed out that a combination of various factors has affected both banks and their clients;
- (d) if so, the details thereof;
- (e) whether the report has observed that the Government policy has created a financial climate that is not conducive to lending in general and to rural banking in particular;
- (f) if so, the reaction of the Government on the World Bank report and whether they have suggested any measures to be taken in this regard; and
- (g) if so, by what time fiscal decision in implementing the suggestions of the World Bank be considered?

Answer

Minister of State in the Ministry of Finance (SHRI S.S. PALANIMANICKAM)

(a) to (e) A World Bank Policy Research Working Paper entitled `Scaling-up Microfinance for India`s Rural Poor` has interalia identified a combination of factors which explain the lack of access to formal finance by the rural poor. These are the problem of uncertainty about the repayment capacity of poor rural borrowers emanating from their irregular/volatile income streams and expenditure patterns, high transaction costs of rural lending mainly due to the small loan size and government policies creating financial climate that is not conducive to lending in general and rural banking in particular. Specific government policies identified are fiscal deficits which have meant that Government is appropriating a large share of financial savings for itself, persistence of interest rate restrictions which reduce the attractiveness of lending, inefficiencies arising from weak governance and stringent scrutiny leading to Bankers` risk aversion.

(f) & (g) the suggestions and recommendations made by various multilateral agencies are kept in view by the government while formulating economic policies.