Street vendor loans may come with subvention

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KOLKATA: The government is considering a 5-7% interest subvention on loans to street vendors to make the targeted ₹5,000-crore financial assistance scheme popular amid apprehensions that organised lenders would baulk at lending to the bottom of the pyramid.

The interest subvention is likely to be in line with the benefits being given to self-help groups where women borrowers take loans at 7 % interest and the government bears the difference between the lending rate of banks and the rate charged on borrowers, people familiar with the matter said.

The housing and urban affairs ministry is giving the final touches to the scheme which is expected to be ready within a month.

Finance minister Nirmala Sitharaman announced it to facilitate easy access to credit to street vendors, who are among the worst affected by Covid-19-related lockdown and need financial assistance to restart their businesses.

Bank credit facility for initial working capital up to ₹10,000 is envisaged for urban as well as rural vendors, the government said, expecting 50 lakh to benefit from it.

On a query whether it would be cost effective for banks to lend such a small amount, a senior executive with a large public sector bank said that loans under Mudra Shishu scheme can go up to ₹50,000 per borrower.

Separately, the government has announced a 2% interest subvention for the next 12 months after the moratorium on loan payment is lifted to those who repay loan on time.

Sa-Dhan, an industry body for microfinance firms has made a pitch for a ₹3,000 crore dedicated fund for its members so that they can take part in the scheme for street vendors.

“As such MFIs are the best suited institutions to implement this credit facility. Sa-Dhan has already initiated discussions with urban livelihoods mission of the ministry of housing and urban affairs to operationalise the scheme,” its executive director P Satish said in a letter to the finance minister.

However, several bigger MFIs have expressed concerns.

“MFIs can be interested as they have the reach and expertise to offer smaller loans. However, unless there is credit guarantee as well as liquidity and margin support from the government, the scheme will be difficult to implement for vendors who do not have fixed stalls,” a chief executive of a large NBFC-MFI said.

Although the nuances of the scheme are still being worked on, it is learnt that urban local bodies would identify the vendors, which may not go down well with lenders from a risk perspective. “We can only consider lending to them, if the programme is funded and viable from a risk and financial perspective,” said another CEO of a microfinance company.

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