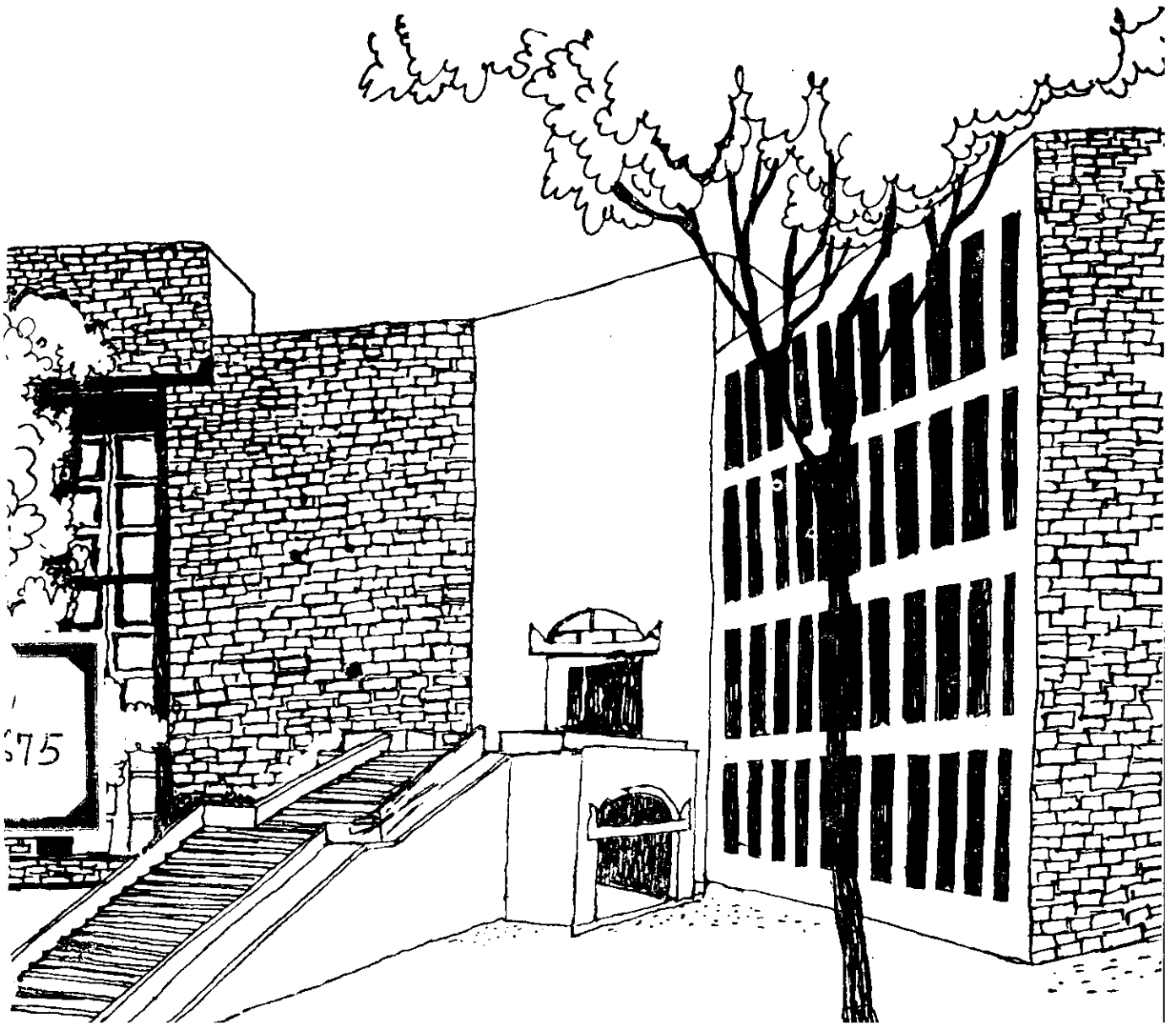


Working Paper



BANKING IN /
BACKWARD REGIONS

W.P. No. 675

MAY, 1987 c/c
S102, S172

BANKING IN BACKWARD REGIONS : BANKS-NOO-POOR

INTERFACE

Alternatives for Action

By

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WP675



WP

1987

(675)

W.P. No. 675

May, 1987

The main objective of the working paper series of the IIMA is to help faculty members to test out their research findings at the pre-publication stage.

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ABSTRACT

The problem of improving access of poor to formal banking system in risky ecological regions has acquired added importance in recent times. The ecological imbalances, reduced opportunities for productive investments, fluctuations in outputs, lack of technological break through, seasonal as well as permanent migration, poor infrastructure, multi-enterprise based household survival strategies etc. pose tremendous challenge to designers of accessible organizations.

We have taken into account the spatial, seasonal, sectoral dimensions of social stratification while conceptualising the problems of access of poor to natural resources, assurance from the institution and abilities or the skills of the poor to convert access into investments.

The socio-ecological paradigm so developed has been used to abstract lessons from six cases of Bank - NGO - Poor interface. While we do not believe that the challenge of developing poor in backward regions can be left primarily on the shoulders of NGOs, we do recognise the need for learning from innovative approaches. The experience of six cases studied by colleagues at IIM and GIAP has been synthesized in this paper. Several policy options identified earlier have been validated while need for some more has also become apparent. It is hoped that NABARD will be able to use insights emerging from this ongoing group research effort to make banking in backward region more accessible to poor.

Banking in Backward Regions : Banks-NGO-Poor interface
Alternatives for Action

Numerous studies have shown that access of poor to formal banking systems has considerably improved in recent years in most parts of the country. The flow of credit, physical coverage, diversity of purposes and the flexibility in the method of disbursing credit has considerably increased. However, the access of some of the most disadvantaged people in the risky ecological contexts (or backward regions like drought or flood prone regions, tribal, hilly areas etc;) has remained constrained. Even in the remaining regions there is a considerable scope of improvement in the quality of follow up and the effectiveness of these interventions. The need of improvement in backward regions should take precedence over the need for reforms in developed and better endowed regions simply because the market forces are much stronger in the latter type of areas and hence even the poor are not under so much stress here.

This is a draft paper which draws upon the earlier work supported by SDC, N.Delhi and NABARD on Policy Options for Rural Credit in Drought Prone Regions (1981-83) besides the case studies prepared by my colleague members of NABARD supported project on Poverty Control through self help. Cases have been prepared by Profs. PM Shingh, Seetharaman, TV Rao, MR Dixit of IIM, Ahmedabad and Dr.Sudarshan Iyengar, GIAP, Ahmedabad. Grateful thanks are due to Dr. MV Gadgil, Mr. Singh, Bakshi and other colleagues at NABARD besides Prof. Visaria Director, GIAP for comments on the first draft. Useful disclaimers however, apply.

Given the serious nature of the problem in backward regions it was considered necessary to study the alternatives that are available for Banking innovations in the country. In the first phase of the present study sponsored by NABARD the initial case studies were focussed more on the issue of learning from innovative experiences where ever they were found rather than searching such cases only in the backward regions.

Many of the lessons that were already available from earlier studies were found to be still valid when the case studies done by GIAP, IIM and IGSSS were discussed at a seminar organized by NABARD in early March, 1987. It was felt that it would help focus the future case studies better if these lessons along with the new issues that were emerging were consolidated in an interim policy paper. Thus this paper.

In addition to the reiteration of the policy implications we have also outlined wherever necessary the need of future data. We have not restricted ourselves to only those implications which involve the NGOs because of two reasons:

- 1) The alternatives for improving the access of poor to banking system cannot be made contingent to the availability of NGOs only since in the regions where the market forces are weak the voluntary initiatives are also not expected to be too many (the preliminary studies by GIAP in Gujarat seem to confirm this).

2) The structural problems of mismatch between the design of supply system in Risky ecological regions with the needs and demand from the poor cannot be resolved by taking recourse to the benevolent intermediaries like NGOs. The voluntary organizations can facilitate the supply or even the demand but they may not like to or be able to influence the policies which guide the operating decisions of the banks at micro level. Even if they bear the risk as they indeed do in many cases, the very nature of such adjustments make these non-replicable. After all the state concerned with bridging regional imbalances and income disparities cannot leave the challenging task of catering to the demand of poor in some of the most disadvantaged regions to market forces or just the individual initiatives or imagination of sporadically born NGOs.

We do recognise the possibility of modification in the public policy in such a manner that more and more NGOs chose to bring poor and the bank together in backward regions in a manner that productivity of various factor supplies improves.

Agenda for policy and procedural changes

The key problems to be covered are:

- A: Generation of demand for credit;
- B: Organising supply of credit of appropriate size, purposes, duration etc, with necessary risk cover;
- C: Managing follow up of credit (in particularly low population density regions where costs are very high) to ensure proper repayment;
- D: Building appropriate links with technology and markets;

E: Developing appropriate links with NGOs wherever genuine activists are available so that in either role as Bridge, Broker or Benevolent Bania (see Gupta, 1987) they enhance permanently the capacity of the poor to gain access to banks and convert demand into a supply leading to repayment and increased level of living.

The policy alternatives for tackling different dimensions need not be mutually exclusive i.e. same policy change could affect the generation of demand as well as improve the effectiveness of supply. What has to be remembered is that there is no free lunch. It pays to improve things and sometimes it costs more and pays less in the short run at least. The economics of changes has not to be interpreted in terms of only the financial return to the individual and the institution. Also it has to be noted that if the rate of return were the sufficient guarantee for repayment than maximum overdues would not have been concentrated in the most developed regions and most profitable farm enterprises.

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1. Organising Access: Creating Demand - Issues

1.1 Several initiatives have been taken up in this regard such as dispersing more widely the network of bank branches; broad basing the institutional structure through revitalization of cooperatives and setting up of RRBs; opening specialised branches such as GVK, ADB, IRDB etc; making business hours more flexible; providing a day off in rural areas just for

1 Also see, Gupta Anil K, 1986, on Creating Demand Systems in Drought Prone Regions, IIM W.P. 649, and "Banking on the 'Unbankable' poor," draft for discussion in Second Workshop of IGPP, March, 1987.

follow up as well as rapport building etc. This is in addition to the concessionary credit and diversification of schemes, easy refinance and simplification of procedures to some extent.²

1.2 The access has been affected by several structural features such as uniform population coverage norms for the entire country; very high number of loan accounts per officer (as many as 6-7000 in many cases after IRDP); restricted mobility (branch managers providing loans without the assistance of field officer are not provided loans without the assistance of field officer are not provided any bank vehicle); ambiguity about the role of district administration, state development corporation, various departments like Forests and revenue, which in turn generates counter productive tendencies; the high average size of loans; generally shorter repayment periods; lack of rehabilitationary policies in the event of risks; absence of portfolio approach to financing etc.³

² NABARD has also undertaken a major research programme on Strengthening Credit Delivery System in Aurangabad, Hoshangabad and Sabarkantha Districts.

³ See the details in IIM-WP 478,1983, Credit Arrangements for Drought Prone Regions: Policy Prescriptions and Planners' Reactions; and Management of Rural Credit and Support System: An organizational study of Financial Institutions in Drought Prone Regions, Ph.D. Thesis, 1985, January, by the author.

- 1.3 The organization of poor into effective demand groups has been considered a necessary condition for improving access for a long time. Several initiatives have been tried such as group lending or group guarantee; FSS (Farmers' Service Societies) and involvement of NGOs. The experience of SEWA Bank and Grameen Bank has added further strength to the notion that groups of people provide more effective basis of mobilizing demand⁴ (both in terms of cost of providing credit and in ensuring efficient use).
- 1.4 In certain cases, the voluntary organizations have mobilized demand on the strength of the guarantee deposits put with the banks. Such an alternative has only limited replicability though offers an useful insight into the working of banking system. Given the assurance of repayment, banks would not mind soft pedalling other issues.
- 1.5 Certain state corporations, marketing and/or processing utilities helps banks in mobilizing demand through either formal tie-ups or tripartite contracts (between borrower, bank and the firm) or informal assurances (or prices or procurement or even repayment as in case of some dairies).

4

See the case studies on SEWA Bank, IIM-A, Grameen Bank, Bangladesh and Personal visits. Profs. PM Shingi and SP Seetharaman have written the case on SEWA Bank, Prof MR Dixit on Syndicate Agricultural Foundation and the farm clinic, Prof TV Rao on Diviseema at IIM-A. Dr Sudarshan Iyengar, GIAP has written cases on NLRDF and Lok Bharati. IGSSS has prepared brief case profiles some of which may be pursued in greater detail by the research team.

These tie-ups underline the need for expanding the meaning of formal banking services. Perhaps, if such tie-ups don't exist they may need to be forged. The experience of sugar cooperatives however, indicates a need for caution because of mounting overdues in areas where firms have made profits, farmers have prospered, and the infrastructure has improved but bank loans have become sticky. The supply as usual continues.

- 1.6 In some cases, if primary access (i.e. access of poor to resources whether private or common property such as traditional rights in forest lands), is constricted through state policies, improving secondary access (i.e. to the banking system) sometimes becomes less advantageous.⁵

Thus all the three vectors of human survival - Access, Assurance and the Ability - have to be simultaneously considered while appraising the policy alternatives.

- 1.7 The policy alternatives listed here thus take into account two aspects of human survival in a mixed economic system. One : the access of the household to natural or other resources. Assurance from public systems or private

⁵ Recent visit to Vikalpa, a voluntary agency in Saharanpur's backward least productive parts provided very vivid example of this type. The hesitance of forest corporation to provide access to the poor to bhabar grass led to the evolution of numerous intermediaries. Access to credit only saved the interest burden. The major issue identified was the access to common property resource for which group action was most necessary.

institutions about various aspects of future flows from present investments and the Ability or skill to overcome risks, convert resources into productive outputs and market these. Thus the technology (i.e. using skills), institutions (providing assurances) and Ecological factors (Access to natural and other derived resources) have to be taken into account at the same time.

Second the transaction costs involved in any exchange between two or more parties have to be generally borne by the weaker partner. In this sense, the policy reform is essentially a political-economic process which improves the bargaining capacity of poor disadvantaged vis-a-vis stronger exchange partners including the bank.

2.0 Policy Alternatives: Reflection to Action

In management science, it is often believed that best should not be allowed to become the enemy of the better. Sometimes better can indeed delay the process of pursuing the best by generating complacense and apathy. Incrementalism, so characteristic of policy reforms in bureaucratic settings has come to be accepted as a norm rather than just an expedient solution to structural problems. Our position is that planners must reflect on the costs of not making several changes at one time and thereby reducing the effectiveness of every change made slowly and over a period of time sequentially. The costs of making changes - the psychological as well as material - also have to be taken into account while evaluating the benefits.

2.1 The need for improving economic and social survival strategies of poor in backward regions is being recognised today so urgently not merely on equity grounds but also because much of the rural-urban migration (making urban systems burst at seams) emanates from backward regions like drought prone and flood prone areas, hilly and tribal regions.

Further, certain investments such as in the livestock, watershed management, agro-forestry, non-farm activities; food crops like oilseeds and pulses have also to be made in these regions on efficiency grounds.

2.2 Problem of low credit Absorption capacity in backward regions and high risk aversion by banks generates a very paradoxical situation. The pockets where the risk, rate of interest in informal credit market, need for credit and marginal productivity of investment is highest, the flow of formal credit is least. It is not only because banks are risk averse but also because the terms at which credit is offered, the demand for the same is very low. Thus the need for modifying the terms of supply so as to stimulate the demand in such regions.

3.1 Transaction Cost inherent in the provision of small and disbursed loan (over space and time because of seasonality of most of the activities) could be reduced by the bank in either of the following ways:

- (a) By making bank mobile and thereby reducing the cost of information search as well as recovery.
- (b) Organization of the borrowers and provision of group loans with individual as well as collective responsibility.
- (c) Loans through voluntary organisations which will mobilise demand and followup the utilisation and recovery.
- (d) Through marketing tie-ups which may independently exist for procurement as well as marketing of the output.

The case studies would have to provide relative advantages or dis-advantages through the experience that may be available of various tradeoff. If the same agency has tried different approaches then cost effectiveness of one over another should be attempted in some approximate manner. It is possible that service contracts may be offered to NGOs or leaders of farmers or labourers groups as a proportion of recovery just the way commission to the small saving collection agents is given.

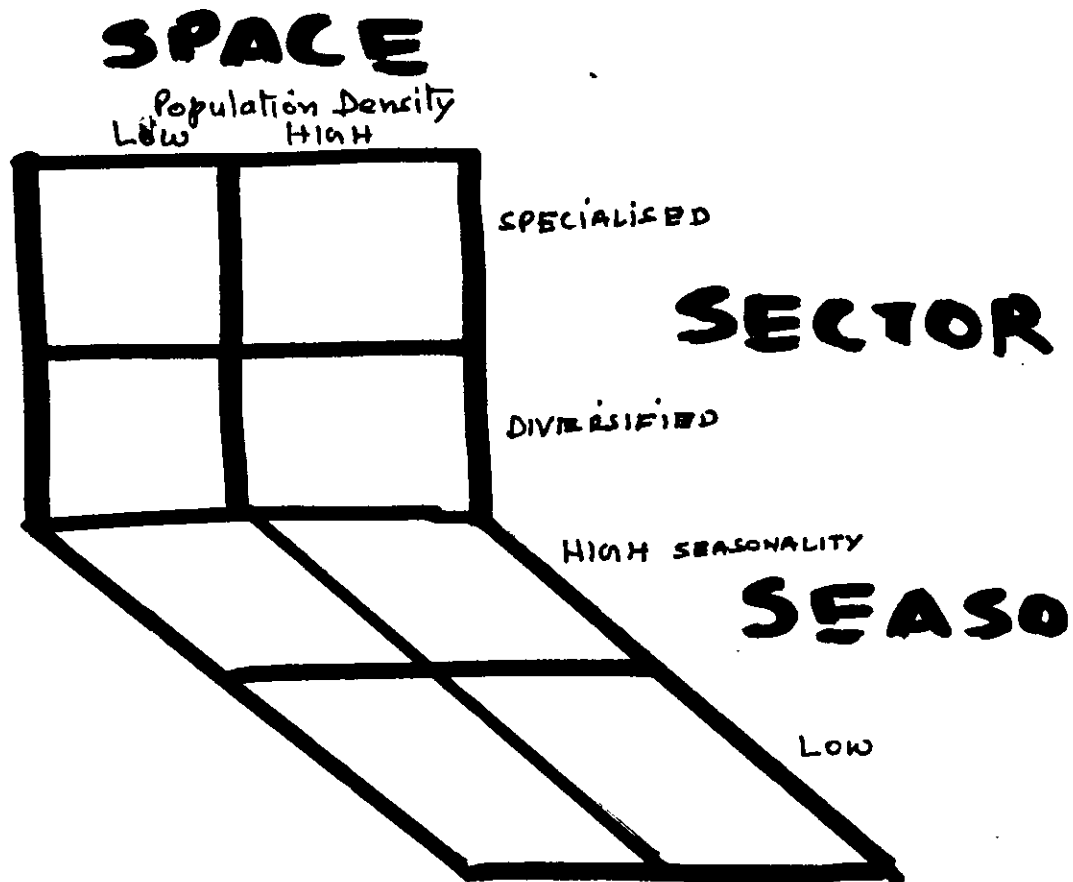
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The transaction cost could arise when imperfections and inequity exist in information available with various parties in an exchange. The intermediaries may emerge to collect relevant information and process it in a manner that exchange becomes possible. The costs will have to be paid by varies.

.2 Role of risk in credit demand and supply

The space, season, sector matrix given below makes it quite apparent that in the low population density spaces with diversified economic activities it is natural that seasonality should be high and vice-versa.(7)

Figure One



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See Gupta Anil K, Socio-Ecological Paradigm for analysing problems of poor in dry regions, Eco.Dev. News 1985, 32-22 pp 68-74.

The implication for policy are that if the flow of credit in the season when the artisans, labourers or farmers in a given backward region are employed is low then there is a problem. The costs of providing credit in such regions are large, the manpower availability low, branch network poor and as a consequence the time lag in supply of credit may be higher. Thus the regions in which poor can tolerate least delay due to high seasonality, the institutional efficiency will have to be very high. The project should provide some operational implications of achieving higher efficiency.

3.3 The policy alternatives emerging from the case studies completed so far have been analysed primarily from the point of view of various risks that borrower as well as banks face. Recognising the limitations of the sample these alternatives only underline the need for changes since even in better endowed conditions the access of the poor would not be improved without these changes.

3.4 The risks that bank may face may involve choice of right or wrong beneficiary, estimation of his cash flow or other skills appropriately or inappropriately; risk on its default even if borrowers get the surplus because of lack of follow-up etc. On the other hand the borrower faces the risk which could be environmental, political, market, economic and even personal such as health or other unknown catastrophies.

4.0 IMPLICATIONS FROM CASES : SEWA Bank

4.1 One of the most important risk that SEWA as a 'movement' covered for the borrowers of SEWA Bank as an 'institution' concerned the very right of poor women pursuing their vocation. For most of the poor in unorganised sector the employment through use of common property resources or public goods such as pavement, roadsides, parks etc poses tremendous risk. The legal, political and other social hardships can come about if the access of poor to the common property resources or public goods is not assured. SEWA as a movement pursued the rights of these unorganised self-employed women by organising them. Without this assurance the Bank would not have been able to cover many of them as rightful borrowers.

The policy implication is that wherever organisations or movements for organising poor people exist these should be strengthened through supportive economic institutions such as SEWA BANK (or Vikalpa in Saharanpur) (8).

(8) In an extremely backward pocket of Saharanpur district Vikalpa-NGO organised landless ban(rope) makers to get their traditional grass cutting rights in the forest land. At the same time it also organised samities of these workers so as to make them eligible for borrowing from bank through group action. The tension between the role of Samitis (the institution) and the morcha for regaining forest rights (the movement) poses a similar challenge before the activists (Vikalpa). The success of one impinges on the success of another.

4.2 The existence of loan committee in the bank is a useful innovation particularly when the cost of doing individual inspection by only one officer are very high and time consuming. By coopting reputed referees (who could be earlier borrowers or members of SEWA) on the loan committees risk of wrong identification is considerably reduced. The banks may be advised to attempt forming of such committees for scrutiny of applications at village and branch level in an open manner so that both the selection as well as rejection are publicised and properly understood. ^{8a}

4.3 By not distinguishing the production and consumption needs very precisely, SEWA has underscored one of the most basic characteristics of poor households i.e. if majority of the income comes from labour and if most of the expenditure is on necessary consumption then these two needs cannot be sharply distinguished. In this sense SEWA has also adopted a flexible approach by financing an activity without neglecting the implications of that activity for other vocations of the borrower.(9)

8a

The concept of loan committee also removes the arbitrariness from the process of scrutiny. The transition from case to law or concrete to abstract also becomes possible. Many progressive policies of SEWA Bank have come about in this manner. A decision has been taken recently to have such meetings every week.

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The recommendation on portfolio financing made in the "policy options for drought prone areas" implied that bank should take into account all the major activities in which a household was gainfully employed while appraising its application. Even though loan maybe given for any one activity the transfer of resources from one to another depending upon market conditions or resource position should be encouraged and not discouraged so as to enhance the allocative efficiency of the household.

The policy implication is that bank should not insist on appraising only an enterprise while appraising credit needs of poor households but take into account the entire gamut of economic activities the household is engaged in. As further illustrated by the case studies SEWA has also taken recourse to liquidation of old debts which is necessary for giving a good head start to any economic entrepreneur.

4.3 The transaction cost of SEWA Bank are considerably reduced by taking recourse to the reference as well as monitoring through the members of SEWA. So much so that SEWA Bank spreads a word about those referees who are known for recommending good cases. This has very interesting policy implication in so far as the recovery of loan to the poor is concerned. It is well known that in any rural society there are traditional leaders among the poor who take initiative in gaining access to the Bank. Banks by observing closely, in a discriminatory manner, can help the emergence of positive leadership or what may be euphemistically called good brokers.

4.4 The counters many times are converted into corridors when borrowers cannot engage in exchanges openly in the banks. SEWA by not restricting the movement of borrowers to various people in the bank encouraged an openness in terms of access of poor to the various authorities in the banking system.

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So far the refree wise ledgers of loan included only the overdue loans. In response to demand from loanees, SEWA Bank is considering the possibility of listing both regular and irregular loan accounts. This practice must be immediately started in all the rural banking.

One can argue that since SEWA bank is dealing with only one set of clients and one set of economic transactions such an informality did not pose many problems. The banks which deal with large number of activities and different types of clients may find this alternative to be difficult. However, the setting up of separate centres or branches for rural lending cannot any more be considered a costly proposition given the scale of rural lending.

4.5 It is well known that number of accounts per officer have increased tremendously after IRDP in the banking system. Unless and until innovations with regard to formation of borrowers committees, appointment of collection agents as attempted by SEWA who collect the instalments from the door of the borrower, are made, the cost of banking system are not likely to be reduced. This will obviously reflect on the quality of lending.(11)

4.6 There are certain other aspects of SEWA working which also need to be noted. For instance, SEWA tried to improve the managerial and monetaring skills among the poor enhancing their self-reliance potential in the process. At the same time sufficient attention was not paid to develop

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See the recommendation on innovative instalment collection system in "Policy Option". It is useful to remember that in the beginning, SEWA used to be provided a commission on advance and recovery. It is only later that the idea of bank had evolved.

organisational learning mechanisms. For instance whenever any costing studies were done for different economic enterprises no system was developed by which such information base would be periodically updated to enable the bank to make proper estimation of credit needs. Likewise in the case of post-riot rehabilitation SEWA did play a very important role both politically as well as socio-¹² economically but the role of SEWA bank was not very clear. Even though by informally accepting the delay in repayment for genuine reasons this bank did show consideration towards the poor women. However, by not rescheduling the loans the overdue figure was unnecessarily enhanced. At the same time there was a scope for rehabilitation of some of the cases where means of production may have been totally liquidated during the riots in the city.

4.7 Banks do normally prepare area-wise monitoring sheets or ledgers. However, the innovation in case of SEWA Bank was to use not merely area-wise but also referee-wise monitoring schedules for their monitoring agents so that the rapport between bank and borrower was not snapped even if the default took place. Suggestions have been made earlier

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Recent discussions have revealed that SEWA organized a massive relief to the member as well as non-member victims of the riots through the help from the State Government. The tools of the trade were provided whenever the same had been lost. Government and other organizations had provided cash relief also but SEWA dealt with mainly/only the in-kind relief. SEWA Bank had accepted the delay as inevitable but continued the follow up so that the borrowers do not become apathetic towards their obligation towards banks whether the compounding of interest could have been avoided through development of simple rules that would find favour with cooperative department remains to be explored.

about the use of credit maps as well as to follow seasonal, spatial and sectoral monitoring systems. NABARD may like to issue comprehensive guidelines in this regard so that discriminative monitoring can be practised. This will also help establishing an organic link between DOM as well as banks' own monitoring system.

4.8 SEWA Bank has encouraged savings as an important part of banking activities. However, it might be useful to establish a risk fund through the contribution of the borrowers to take care of the genuine problems of the borrowers.¹³ Grameen Bank in Bangladesh by developing such a fund follows a two-tier approach to lending. While the groups of borrowers can borrow from the Bank for their necessary needs, in some cases when the groups have sufficient funds of their own they can lend to individual members at a lesser rate of interest but higher than the saving rate provided by the Bank. This is a useful innovation which can generate self-reliance not at the level of individual borrowers but at the level of group of borrowers.(14)

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The SEWA trust or SEWA Management may contribute matching grant or some token amount to each group of borrowers who pool such a risk fund. The management of such a fund should be entirely in the hand of the borrowers' committee. Legally, there is absolutely no bar to such contribution given the fact that many banks like Syndicate and other have set up foundations (SAF) to which they contribute resources.

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NABARD may still consider the idea of studying Gramin Bank in Bangladesh by a team of professionals including an academician, senior bankers, representatives of Ministry of Finance and NABARD

5.0 Syndicate Agricultural Foundation (SAF) - Farming Clinic

5.1 Promotion of a bridge organisation by a bank which is managed by the same people but has a separate balance sheet and constitution is an extremely interesting innovation in organizational and budgetary terms. The organizational innovation is that in the role of SAF office bearers Syndicate Bank employees can perform those activities which as a bank employee they may not be able to perform. Further the developmental role would impinge on their bureaucratic role and hopefully modify that.

The budgetary innovation is that mobilisation of external resources is possible and large number of developmental activities could be taken up. Banks have generally felt hesitant to promote such activities within their own system.(15)

5.2 The appointment of field assistants by the Syndicate Agricultural Foundation in the farm clinic attached to a Syndicate Bank branch provides a means of reducing the monitoring cost of the bank. It also improve the rapport building with the farmers. Since the field assistant lives in the village he also helps the bank in getting access to lot of information about the borrowers which in the usual system is almost impossible to collect. The policy

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The Rural Voluntary Scheme of Canara Bank is a notable exception and deserves to be studied as a part of this project.

implication is that banks may be encouraged to appoint either on project basis or scheme basis assistants who can help in mobilising recoveries and even savings. Banks do have small saving collection agents. However, they have not yet thought of appointing recovery agents who could do the saving function as well.

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5.3 One of the basic premise of farm clinic approach is data base planning. The bench-mark survey provides the basis for preparing farm as well as credit plan for each borrower. While it is quite likely that such an activity might appear very cumbersome given the scale of operations and uncertainty in the environment the concept has a merit that leads to case by case approach in developing credit programme. Bank does not feel handicapped in developing new scheme if the need so arises. Also the unit cost of enterprises do not come in the way because of the availability of the data base which can justify the deviation. We need more data to establish these implications.

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A suggestion was made to NABARD in the meeting on April 29, 1987 that while sanctioning various schemes it must insist on the appointment of contractual staff for intensive follow up of the schemes at field level. It must also be recognised that given the low margins banks earn on such lending, they may not be enthused to hire permanent staff for the purpose.

5.4 The monitoring & feedback system developed by the Bank is a useful innovation in as far as it deals with keeping a close track of the activities of farm clinic. There are several suggestions which have been made in the case study to strengthen the system. Certain questions are still being pursued to find out the cost effectiveness as well as programatic utility of the clinics. For instance is the proportion of poor borrowers higher in farm clinic villages compared to non-farm clinic villages; is the recovery in the farm clinic villages higher than the non-farm clinic villages of the same branch; whether the diversification of portfolio is higher in farm clinic villages and whether bank has modified at all its policies or procedures in light of the feedback from the intensive monitoring possible under farm clinic approach.

5.5 The flexibility is an important future of farm clinic working in terms of working hours, recruitment of farm assistants, promotion of non-banking developmental activities such as agricultural demonstration, adult education, afforestation etc. This only underlines that development of credit portfolio does call for certain additional developmental activities in the villages which banks would have to find a way of strengthening.

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The hope that farm assistants recruited for five years would become developmental entrepreneur and be self reliant has come true only in few cases. The whole idea needs further refinement and rigorous support.

5.6 We do not have evidence that farm clinics have also helped in perhaps better rescheduling or rehabilitation of genuinely affected enterprises due to environmental or market contingencies. However, we will collect data to find out more about this. If found true this would be an additional strength of this approach.

6.0 Diviseema Social Service Society (DSSS)

6.1 Even though case study was very preliminary the findings nevertheless are quite interesting and can indeed form the basis of some speculation regarding policy changes.

6.2 There exist in rural areas traditional forms of organization such as Moota System in the cyclone prone region where DSSS worked. By building upon these traditional forms of organisations. The DSSS has reduced its risk in term of viability of the organizations because these organizations were tested. Banks might consider identifying such traditional forms of cooperation and social organisation which are still existing in majority of the backward regions. This will also help in reducing the monitoring and follow-up costs of the bank.

6.3 The group responsibility which was a sort of group guarantee was found to be helpful in this case even though there are experiences where group guarantee has failed because it was implemented only in letter and not spirit.

- 6.4 The saving schemes aimed at promoting thrift were linked with credit programme in a very viable manner. This has been one of the major weakness of lending programmes in the entire banking industry. No clear linkage has been maintained between these two functions of an economic enterprise.
- 6.5 The backup educational efforts by DSSS as well as technological interventions were used as was the case in most other NGOs.
- 6.6 One of the most distinctive innovation of DSSS which must be given due importance in the banking system was the conceptualisation of crop pests as the common property resources(CPR). While academic studies have been done on the subject and it has been found that in backward areas where pests are a major problem in the cropping system there is no alternative but to take up pest control collectively on CPR basis. However, this would not be possible unless banks would consider the recommendation made under the policy options study "regarding contracting, curative and consulting services". It is possible that many more such problems would be found which call for group solutions and would therefore require contracting such functions to either existing groups or new groups or intermediaries such as commercial dealers dealing with the relevant inputs. It is also possible that the integrated pest management systems may have to be developed to reduce the risk of individual borrower through group effort. Such systems would require

investment in terms of location specific research and development for which banks should be able to develop an alternative system of collaboration with other departments .

6.7 The NGO in this case had planned for dispensibility and also through periodic evaluations tried institutional renewal. It is useful to ask a question as to whether banks can develop contractual relationship with NGOs for time bound phasing out such that self-reliant groups could come about. It should be noted that such groups could not be expected to come out within 5-7 years since it takes far longer than that for collective consciousness to emerge.

7.0 Case by Gujarat Institute of Area Planning (GIAP)

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7.1 Both case studies i.e. on Lok Bharati (LB) as well as NLRDF brought out several important features some of which already have been mentioned above. The distinctive feature of GIAP case studies vis-a-vis IIM case studies is the involvement of industrial houses directly or indirectly in providing resources for developmental activities. Further the credit was one of the many activities which these NGOs had taken up. Again as it was found in case of DSSS the guarantee deposits or the incentive deposits did play a useful role in motivating bankers to lend.

7.2 The progressive reduction of the amount of loan relief in case of NLRDF could be considered a positive feature in terms of promoting self-reliance. However, one was not sure whether

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In both these cases similar to the case of SAF/Farm clinics of Syndicate Bank, the emphasis was not on the poorest or even the poor. Typical community Development approach was taken aiming at all round development in a positive manner.

the credit flow would continue once these incentives were withdrawn. While the need for flexible rephasing and rehabilitation has been recognised by the author. NLRDF and Lok Bharati did not follow any precise system for safeguarding the interest of borrowers affected by floods and drought respectively.

7.3 The promotional activities, the flexibility in system, close follow-up, pursuing the formalities to be done by the bank provision of access to new technology etc are some of the features of the NGOs studied by the GIAP. However, as noted by the author, the reported holistic and philanthropic concerns of the NGOs may create contradictions with the limited objectives of the bank.

7.4 The survey of voluntary organisations in Gujarat strengthens the hypothesis regarding ecology of voluntary action had lot of strength. Wherever market forces are weak it could be hypothesized that the emergence of voluntary organisations would also have lesser possibility. Given this finding the need for policy changes with or without any intermediary organisation as mentioned in the proposal of the project cannot be disputed.

7.5 Summary of some of the policy changes even though discovered earlier but found valid from the present case studies is given next.

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Prof. Visaria did not agree with this inference from the data provided in GIAP case studies. There is a need for more rigorous analysis looking into the locations of office vis-a-vis the projects of NGOs so that the inference can be confirmed. In any case the backward region do not abound in NGOs vis-a-vis the developed region.

Key policy implications drawn from earlier work but revalidated partially or completely from present case studies are:

a) Systems for delivering Small loans: The average size of loans for priority sector is quite large compared to needs of the very poor people (which range in hundreds as against the existing average which is in thousands). It is obvious that the cost of delivery as well as follow up will be enormous. Some of the alternatives are (i) promoting rural volunteers (on RVS basis of Canara bank, collection agent of Sewa, field assistants of SAF or a combination of these) who would form demand groups of poor so as to reduce transaction costs of the banks. Vikalp has done it very successfully with landless ban makers.

(ii) Link Saving and Credit system so that both thrift and credit needs are met. In the national seminar organised by NABARD, it had advised the representative of GIC to submit a note on fidelity insurance to NABARD²⁰ it might be useful to pursue the action.

(iii) Group loans i.e. one loan to a group which should then disburse it to members as attempted partially by Grameen Bank (in case of development fund). Considerable attention will have to be paid towards forming groups.

20 See the proceedings of the Seminar prepared by NABARD, included in IIM, W.P. 478, 1983, on 'Credit Arrangement for Drought Prone Regions: Policy Prescriptions and Planners Reaction'.

(iv) Just the way government provides managerial subsidy to primary cooperative societies, subsidy to banks for such a purpose of servicing large number of small loans be provided. Government should modify IRDP policies so that indirect subsidies as suggested here substitute the direct subsidies (as being done at present with considerable inefficiency and waste).

b) Seasonality of Disbursement:

(i) Large number of activities are not only season bound but also season constrained (i.e. given fluctuation in environment, one activity may take precedence over another). The access of the poor engaged in these activities can be easily monitored by noticing the proportion of these activities in the credit portfolio of banks for the concerned period.

(ii) The viability of investments in such cases also depends upon the timeliness of supply. The seasonality can also be used to restrict banks not to lend for certain activities in the non-optimal season.

c) Flexible Repayment Schedule

(i) Given different rates of return and unit costs in various ecological contexts for the same enterprise, the flexibility in repayment schedule is must. NABARD should consider developing guidelines on the same basis as it has developed the land holding limits for small farmer definition for entire country.

(ii) Monitoring of coefficient of variation in the repayment schedule fixed by the banks (and not mean) would also provide feed back to NABARD about the extent to which eco-specific adaptation are being made in this regard.²¹

d) Innovative Instalment Collection System

As mentioned under point-a, there is a considerable scope of improving and strengthening the recovery systems of bank. It has been shown in many studies that farmers and labourers often would like to pay in small bits but frequently. The cost of transportation and time many times may prevent such poor borrowers to come to bank for paying small instalments. NABARD should not delay innovations in this regards for atleast pilot testing. Experience of SEWA as well as Farm clinics confirms this.²²

e) Portfolio Financing

(i) The basic idea is that if the difference between the production/essential consumption needs is thin, if fungibility makes the task of monitoring actual use difficult and if shuffling of enterprises over time and space is a necessary condition for risk adjustments by poor households, then method of estimating credit needs and monitoring it's use will need to be modified. It may still be necessary to give loan for any one or two enterprises

21 See also Gupta & Shroff, "Learning to Unlearn", 1985, IIM-A

22 In a programme entitled, 'Focus' televised on May 3, 1987 attended by the Additional Secretary, Banking and Secretary Ministry of Programme Implementation and Review, the collection of Instalments from the door of the borrower was cited by most of the loanees interviewed as a definite advantage. However, all these examples were from urban areas. Government may be willing to consider innovations in this regard in backward rural areas.

only but not consider reallocation of resources from one enterprise to another as misutilization as it is done today. The allocative efficiency and not the enterprise efficiency will be the touch stone of appraising credit needs. The experience of SEWA exemplifies some aspects of this. It is like giving a general line of credit with necessary support to ensure that access of poor to other inputs or markets also improves. For goods which are in scarce supply, tied line of credit has a merit. For other good, general line may be better.

f) Rescheduling and Rehabilitation

(i) Bank are today constrained by the rules which provide for formal rescheduling only after gazette notification (which is generally made for the whole district and not a part in case of natural contingency). In some cases officers do it informally by extending the date on the ledger itself (since formal rescheduling in the present system would require execution of documents afresh). The legal as well as procedural implications of this process need to be carefully looked into. One adverse effect of non-rescheduling is artificially high figure of overdue because even in the genuine cases the rescheduling has not been done.

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In many cases of small genuine overdue loans, the interest burden thus becomes more than the principal. An interesting case was brought out by a very progressive banker where a small overdue loan of Rs. 120/- could not be written off unless legal suit was filed. The cost of the suit in such a case was about Rs.240/-. If a borrower could not pay Rs.120/-, how would he/she pay Rs.360/- plus other charges and compound interest even on the legal expenses debited to the borrower's account. Surely, RBI must look into such cases and simplify the procedures for writing off such genuine loans less than say Rs. 1000/-.

(ii) As far as rehabilitation is concerned, in cooperative system, the same has been tried for a long time. However, this relief is often non-discriminatory (as it was in case of Gujarat after Jaswant Singh Committee report). In commercial banks as well as RRBs, the same appears to be highly limited. In risk prone ecologies, there is no escape from the above implications.

g) Contracting - Curative - Consulting Services

Experience of case studies pursued so far has revealed the need for back up support to make economic investments viable without any exception. While it is difficult for banks to intervene as far as the political mobilization is concerned, they can certainly contribute towards technological and economic reinforcement.

(i) Contracting implies engaging brokers who would either service the equipments of the borrowers, or provide some assistance (marketing, procurement or follow up of loan etc) and charge for the same. The logic is that for borrowers to organize these services individually may not be feasible. e.g. Sewa could mobilize legal support or health support, DSSS, NLRDF, LB & SAF mobilised technological support.

(ii) Curative Services deal with veterinary or plant protection services which either because of common property problems or because of scale of operations, technical knowledge etc., cannot be organised by the borrowers on their own. The costs would of course be charged to the borrowers.

Some of these services can be even obligatory.

(iii) Consulting Services imply using local skills for providing specialised services so as to improve the efficiency of investments. Banks have already started entrepreneurship development programmes. It is quite logical that some of these trainees may need specialised help for market surveys, project development or other related aspects.

h) Refinancing Farmer's Initial Investments

It might shock some to learn that during a recent visit to Saharanpur, discussions with the lead Bank (PNB) revealed that even for small medium term loans, margin money ranging from 5 to 15% was being insisted by banks due to official instructions. In well loans, the problem often arises where farmer take the initial risk by investing their own labour or hiring others. Banks often do not refinance these costs for which policy guidelines need to be issued.

Conclusion

The tentative policy implications emerging from the case studies pursued so far do indicate the need for some thought about action follow up. And we may stress that action on some of the suggestions need not await the outcome of pilot project experience or further action-research if our exploration has to remain credible and purposeful.

Acknowledgement

Murali, Mahadevan and Durairajan rendered excellent word processing help and deserve my thanks. RK Verma has helped in the proof reading.

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