

Special Note

Design Issues in Micro Credit

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Micro credit interventions are being increasingly recognized in India, as in other countries, as an effective tool for achieving the distributional objectives of monetary policy which contribute to socio-economic welfare. This study takes a close look at a major micro credit provider in India and seeks to analyse the problems and prospects of designing and implementing a viable micro credit dispensation route in India.

Introduction

In the recent period, considerable emphasis has been placed on strengthening credit delivery mechanisms with special focus on the promotion of micro credit enterprises in the dispensation of rural credit. In India, as in other countries, micro credit groups are being recognized by policy authorities as an effective tool for achieving the distributional objectives of monetary policy. Indeed, the increasing focus on micro finance institutions in recent times has come as a response to the perceived inadequacies of existing agencies for providing productive credit to those with little or no previous access to formal credit facilities. In this context, the Reserve Bank of India (RBI) set up a Micro Credit Special Cell in April 1999 which submitted its report in January 2000. Earlier, the National Bank for Agriculture & Rural Development (NABARD) appointed a Task Force on Supportive Policy and Regulatory Framework for Micro Credit in November 1998 whose report has also been presented. These two reports have guided the shaping of policy initiatives on micro credit in successive half-yearly reviews of monetary and credit policy since April 2000.

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Further, the Union Budget for 2000-01 has underscored the promotion of micro enterprises set up by vulnerable sections of society especially in rural areas. During 1999-2000, loan disbursements by banks to such groups have more than doubled and it is envisaged that an additional 1 lakh Self-Help Groups (SHGs) would be covered by schemes managed by NABARD and Small Industries Development Bank of India (SIDBI) by 2000. Against this background, this paper undertakes a study of a major micro credit provider in India, i.e. the Ahmedabad-based Mahila Self-Employed Women's Association (SEWA) Sahakari Bank, popularly known as the SEWA Bank, with a view to understanding the key issues in provision of micro credit in India.

The paper is organized into four sections. Section I sets out the methodology adopted for pursuing this study. In Section II, the stylized facts about SEWA Bank are detailed out. The analysis of findings is given in Section III and Section IV contains broad conclusions.

Section I

Methodology

In view of the relative neglect of the subject of micro credit in the literature available especially in India, this paper has relied largely on the interview method for eliciting quantitative and qualitative information. As predesigned questionnaires are structured and relatively fixed, these usually do not leave much scope for interaction between the researcher and the respondents. The methodology used in this study, therefore, is quasi-experimental as it involves free interface with the management of the micro credit institution, on the one hand, and randomly selected member-borrowers, on the other. During the field visit(s) to Mehendikuan, Dariapur, Alampura and Jamalpur areas in Ahmedabad, 35 SEWA Bank members were interviewed. This afforded a first-hand opportunity to understand the savings and borrowing behaviour of the members. These members were scattered throughout the city and were picked up randomly. The majority of interviewees were in the age group of 40-50 years. They included bidi rollers, block

printers, paper pickers, vegetable vendors and ready-made garment stitchers.

Section II

The Stylized Facts

The SEWA Bank, an offshoot of the Ahmedabad-based Self-Employed Women's Association (SEWA), commenced operations in 1974 as a novel experiment in financing the women's labour movement. Its genesis can be traced back to the dearth of working capital and operating surplus for poor self-employed women workers and the problems they confronted in their day-to-day business activities. On the one hand, SEWA Bank's thrust has been on acquainting women workers with the banking habit; on the other, it has also sought to activate its supply of services with a view to integrating the unserved groups into the system and providing credit facilities to them for income-generating activity. With its exclusive woman clientele, mostly illiterate and poor, the SEWA Bank has come to be regarded as an important and effective tool for poverty alleviation, individual and household security and as a harbinger of social change.

The SEWA Bank is registered as an urban co-operative bank and regulated by the Banking Regulation Act, 1949 and Gujarat Co-operative Societies Act. It also comes under the Indian Trusts Act 1882. It operates in five districts of Gujarat : Ahmedabad, Kheda, Banaskantha, Gandhinagar and Mehsana with nine collection centres in Ahmedabad. The bank is owned by the self-employed women as shareholders and policies are made by their own elected Board of women workers.

About 80 to 87 per cent of the total working capital of the bank has come from members' savings. The composition of these savings has, however, changed over time under the impact of financial planning and conversion of savings into investments. In the absence of any physical collateral, savings performance enables the bank to assess the creditworthiness of a borrower in lieu of

collateral. A financial profile of the SEWA Bank is given in Table 1.

Table 1 : Performance Indicators

	1996-97	1997-98	1998-99	1999-2000* (Provisional)
Net Profit	Rs.17.87 lacs	Rs.17.58 lacs	Rs.22.59 lacs	Rs. 18 lacs
Working Funds	Rs. 17 crores	Rs. 21 crores	Rs. 26 crores	Rs. 31 cr.
% of Net Profit to Working Funds	1.1%	0.83%	0.86%	0.58%
Loans & Advances	Rs.6.51 cr.	Rs.8.65 cr.	Rs.9 cr.	Rs.9.38 cr.
NPA	Rs.1.82 cr.	Rs.1.75cr.	Rs.2.22 cr.	N/A
% of NPA**	28.01%	20.2%	24.64%	N/A

* : Relates to April - December, 1999.

** : % of NPA has since come down to 19% as on 30/09/2000.

The scale and outreach of the SEWA Bank' operations stand out even more when compared to the extent of SHG-bank linkage achieved in the state of Gujarat. While the average volume of advances for SEWA Bank has been hovering around Rs. 9 crore annually for the last few years, it has been rising steadily during this period. On the other hand, as per data received from Ahmedabad office of NABARD, credit extended to SHGs by all banks in Gujarat taken together in 1999-2000 amounts to a little less than Rs. 1 crore only.

Micro credit is thus one kind of support within a whole spectrum of services provided by SEWA like savings and credit, health care, childcare, insurance, legal aid, capacity building and communication services. Taking a holistic approach, SEWA has helped women take a number of initiatives in organising these services for them. Some of the supportive services like savings and credit, health and childcare have formed their own co-operatives.

Section III

Analysis of Findings

Types of Financial Services Demanded

On the basis of the responses of the interviewees, the categories of financial services demanded are presented in Table 2, following an ordinal ranking scheme which is based on subjective orderings by interviewees.

Table 2 : Types of Demand for Financial Services on SEWA Bank

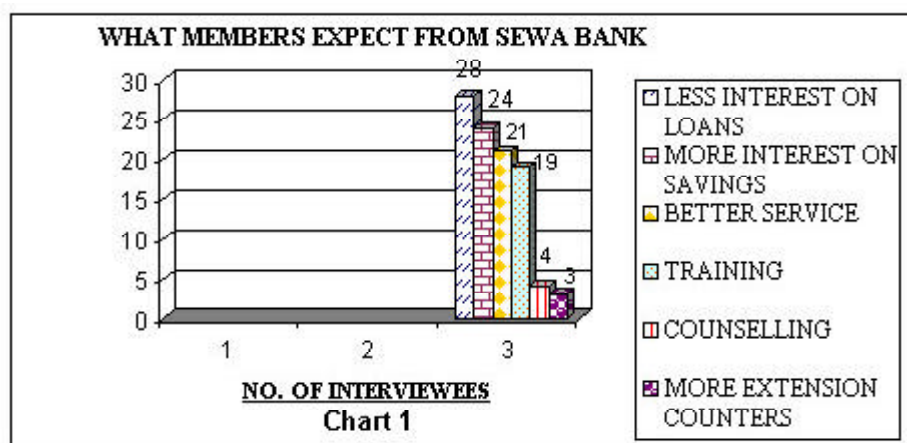
- (i) Acquisition of House, Development & Repair
- (ii) Working Capital for Business
- (iii) Debt Repayment
- (iv) Education & Marriage of Children
- (v) Maternity
- (vi) Getting Back Mortgaged/Pledged Assets
- (vii) Accident
- (viii) Death/Widowhood
- (ix) Festivals
- (x) Losses in Riots, Flood, Cyclone & Fire
- (xi) Pilgrimage

Other Products Demanded

- (i) Savings & Loans
- (ii) Insurance Services¹
- (iii) Housing Finance²
- (iv) New Products :
 - (a) Financial Counselling
 - (b) Daily/Weekly Loans
 - (c) Rural Banking
 - (d) Zatpat (Quick) Loans

Customer Expectations

Responses presented in Chart 1 clearly indicate a high interest-sensitivity of the majority of the member interviewees. 28 out of 35 interviewees want interest charged on loans to come down. This dispels the conventional wisdom that interest charged on credit ceases to be an issue in micro credit provision once informal sector-like timeliness of credit is ensured. Further, the clamour for better customer service should put micro credit providers on the 'deliver or else' kind of an alert.



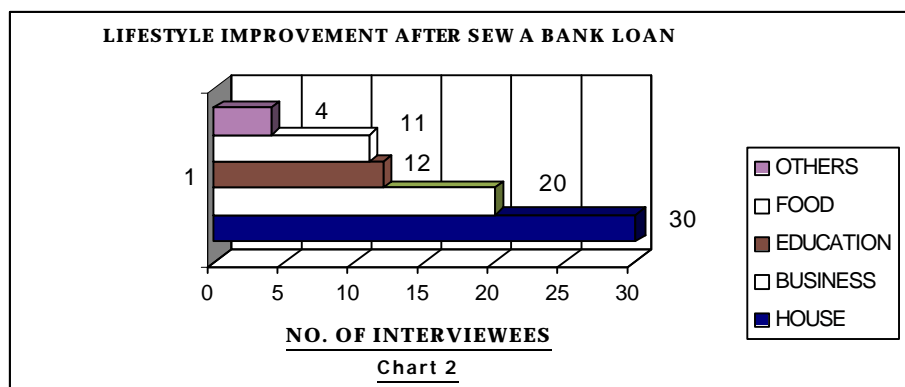
Federations as Conduits

In the light of RBI's recently framed guidelines granting banks freedom to choose conduits for micro credit delivery, it is interesting to note the SEWA Bank's increasing use of federations for financing in rural areas. Promoting district level federations was a part of the SEWA Bank's overall approach of creating grass-root level economic organisations owned by poor women. It has also been a part of their decentralization process with the objective of increasing outreach and focusing on district-level savings and credit activities. These federations are registered as Society and Trusts under Societies Registration Act and Trust Act. They promote savings and credit groups in the district, build savings capacity, monitor activities of such groups and provide

finance to these savings and credit groups. The main thrust of all these federations is to bring self-employed women to the mainstream. The main advantage to the bank due to its link with these intermediaries is the externalisation of a part of the work items of the credit cycle, viz. assessment of credit needs, appraisal, disbursal, supervision in transaction cost. The interaction among these federations at different levels, the membership base and the status of credit groups are shown in the Appendix.

Socio-economic Impact of SEWA Bank

Besides helping to improve levels of income and savings, the SEWA Bank has also been able to bring about enhancement in a number of social indicators such as housing, literacy and nutrition/primary health care. The positive impact of access to resources clearly demonstrates an overriding concern of the women loan recipients for household well-being and makes a strong case for making micro credit women-centric. 85.7 per cent of the member-interviewees (30 out of 35) have better housing and 57.15 per cent of them (20 out of 35) have been able to set up enterprises, due to the SEWA Bank assistance (Chart 2).

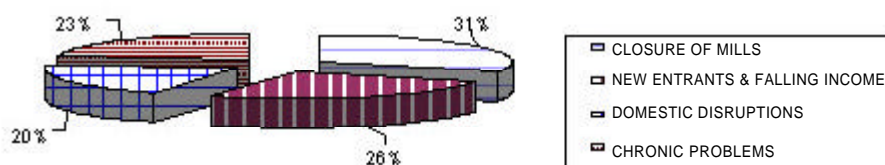


Many SEWA Bank members are home-based workers and therefore require housing finance for improvement in their living conditions and also for a better business set-up. While their initial loan requirements revolve mostly around housing and other infrastructure-related needs, the ratio of business loans to total credit extended has increased in case of repeat loans. Most members interviewed developed banking habits only on joining the SEWA Bank. While not many members had formal loan experiences before linkage to SEWA Bank, their earlier loan resources had been limited to moneylenders, relatives and others with a very high interest rate outgo of around 45 per cent. The effectiveness of the savings-loan linkage in micro credit is manifest in the members' urge to save primarily to secure their future and improve their lot by getting loans.

Overdues

Reasons for Not Repaying Loans

(Chart 3)



New entrants and falling income	26 per cent
Domestic disruptions	20 per cent
Chronic problems	23 per cent

As regards the increasing incidence of non-payment of loans and the consequent rise in overdues, the interface with the member-borrowers, as shown in Chart 3 and Table 3, revealed that (a) closure of textile mills in and around Ahmedabad, (b) entry of these displaced workers into activities like paper picking and bidi rolling thereby cutting into the earnings of existing paper pickers and bidi rollers, (c) major domestic disruptions like severe illness and death of a breadwinner and (d) chronic problems like poor health and alcoholism are the main economic stress events that place strains on household incomes and resources and thereby affect their repaying capacity adversely. The strong correlation between lack of incremental income and declining repaying capacity also came to the fore during this interface. This growth in overdues has hampered the recycling of scarce resources of the bank and affected its profitability over the years as well.

Identifying overdues as the major area of concern, the SEWA Bank has initiated the following corrective measures :

- (i) A special team of 20 field workers called hand-holding teams has been created. They are allotted areas and loanees. Each pair, consisting of one literate and one illiterate woman, is responsible for 400 loanees. These illiterate women are from the same area and are elected leaders in their respective areas. The field workers are regularly visiting these loanees to learn about their lives, business and facilitate/counsel them on making their financial decisions.
- (ii) Specially designed software has been provided to field workers in which area-wise, recommender-wise, occupation-wise information on overdue accounts are maintained and relative printouts are given to them. Computerisation has now also made available the services of a substantial part of the workforce, hitherto deployed in operational work-areas, for collection purposes.

- (iii) Leaders from all areas and directors are called for weekly meetings and updated on the latest figures and next week's plans.
- (iv) A Committee of senior-level organizers and some directors has been established for 02 months to closely monitor the recovery campaign.
- (v) Daily targets are set and monitored regularly.
- (vi) Pressure is being put increasingly on personal guarantors.
- (vii) Legal action is being taken in difficult cases.
- (viii) Integrated insurance scheme is being put in place that, among other things, would cover loss of assets in flood, cyclone, fire & riots.
- (ix) As a long-term strategy, the bank is planning to introduce a daily collection system in market place, chawls, slums and other labourer-dominated areas.

Section IV

Concluding Observations

The analysis of the operations of the SEWA Bank affords us a microscopic view of the challenges confronting micro credit providers in India. Meeting these challenges for realization of a sustainable micro credit purveying system would require suitable and proactive micro credit policy responses. The recent guidelines on micro credit mark a positive beginning. Fine-tuning the policy responses henceforth to build on the beginning made is the task that lies ahead. Dialogue-based studies on micro credit providers in India acquire critical importance in this fast-emerging and relatively uncharted area of credit delivery. In fact, without the insights of the poor people, who have a long-overlooked capacity to contribute to the analysis of poverty, we may apprehend only part of the reality of poverty and its causes. The survival strategies of

the poor as brought out in such intensive interaction with them should fashion and sharpen the response initiatives.

In recent years there has been a marked growth in the number and outreach of micro credit providers in India. Most of these institutions have high average loan repayment rates – a powerful statistic to reinforce their sustainability. However, such interventions are sustainable only when rural households are resilient in the face of exogenous shocks. Livelihood diversification strategies of low-income urban/rural households and micro credit interventions that can best support such strategies should be the focus of providers like the SEWA Bank. In the absence of the usual collateral, only a regular savings habit identifies a creditworthy client. Hence even when a loan is being repaid, ongoing savings should be encouraged.

Equally important for ensuring the success of micro credit institutions is the role of the field worker within such institutions. This is especially true of institutions like the SEWA Bank that disburse loans on an individual case-by-case basis. Close interaction and familiarity between the field worker and her/his clients ensures that she/he is fully aware of the financial situation of the clients which, in turn, makes possible appropriate decisions on loan sanction, due follow-up on the amount disbursed and high repayment rates.

The organizational ethos, culture and attitude of institutions like the SEWA Bank would play an important role in micro credit intervention. Since the bank's problems were co-terminus with its evolution into a formal financial institution, it is imperative that any intended focus shift in its management involves transition from: (i) 'bureaucracy orientation' to 'informal institution orientation'; and (ii) 'procedure driven' to 'problem-solving driven' for this purpose. Decision-making should be decentralized and the span of control should be fairly limited. Modern information dissemination technology should be used extensively both for effective customer interface and identification of early warning signals for problem loan accounts.

The future strategy of micro credit institutions would need to build on the undernoted elements :

Firstly, there is an inescapable need for designing new and innovative loan and savings products especially in the light of the flexibility imparted by the recent micro credit guidelines. Indeed, these institutions should think of diversifying their loan portfolio and devising distinct product(s) addressing a particular niche taking into consideration the preferred attribute/possible use of credit.

Secondly, technical assistance and credit support to members is imperative for diversifying their income-generating activities.

Thirdly, these micro credit institutions must expand into rural areas. The rural financial sector is still not an integrated one and weaning the borrowers away from the informal sources of credit would require a major expansion drive for these institutions in rural areas.

Fourthly, financial counseling for making all income-generating pursuits sustainable and strict control over overheads should be combined with rigorous follow-up and an all-out concern for higher recovery.

In the medium-term, the strategy for these institutions may focus on the following :

- (i) Micro Finance Institutions (MFIs) may be linked with insurance services. Such integrated insurance services should be provided to the clients/loanees of MFIs.
- (ii) Separate Cell(s) should be created in MFIs for providing financial counseling to the poor clients. These poor people have not learnt to plan their lives and they should be taught and encouraged to think about their future. They should learn to reduce their unproductive expenses and save for their future.

- (iii) Special training programmes should be designed and conducted for overdue monitoring.

Notes

1. Annual premium: Rs. 75/-. Coverage: (i) Sickness : Rs. 1,200/-; (ii) Accident : Rs. 3,500/-; (iii) Natural Death: Rs. 3,000/-; (iv) Widowhood: Rs. 3,000/-; and (v) Losses in riots, flood, cyclone & fire: Rs. 5,000/-. The insurance scheme is linked to a fixed deposit saving of Rs. 750/- and premium is paid out of interest earned on this deposit. There is an added advantage of maternity benefit of Rs. 300/- for depositors. The coverage under the insurance scheme till March 1999 was 32,000 members.
2. As on 31/08/98, the bank has disbursed a total of Rs. 1.52 crores as housing loan to 12,015 women.

Appendix**Federations as conduits****1. Interactions at different levels**

(a) State-level Federation (Executive Committee)

This includes elected representatives from District-level Associations.

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(b) District-level Associations

This includes elected representatives from Savings & Credit Groups of districts.

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(c) Savings & Credit Groups {Village level}

⇓ ⇓

(d) Individual Members

2. Membership Base

The Ahmedabad Savings & Credit Association: 6,868 members.

The Kheda Savings & Credit Association: 9,230 members.

The Gandhinagar Savings & Credit Association: 1,182 members.

3. The status of credit groups

Credit Groups	:	891
Membership	:	26,915
Saving Groups	:	1009
Membership	:	26,508
Savings (in Rs. Lakhs)	:	47.67