

## SPEECH

**BANKING WITH THE POOR\***

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It is my great pleasure to be here this morning amidst a gathering of persons who carry with them a commitment to design and establish programmes to help the poor improve their access to credit. The issues relating to provision of credit for the poor have been widely debated and discussed in different fora. The concern has also been universal regarding the urgent need to remove the constraints on credit availability to the poor. I sincerely hope, that through your deliberations you will be able to settle on a set of action points, which can lead us to move faster towards helping the poor to help themselves.

2. The main challenge before a developing nation is to foster sustainable growth. For growth, or its recovery, the nation's productive capacity has to be strengthened and expanded. In the development agenda, an important issue relates to the problem of provision and delivery of financial services and credit to the poor so that the poor emerge out of their poverty through meaningful productive activities. Greater access and sustainable flow of credit is critical for the improvement of the poor. Credit has also to be prompt and adequate. Experience has now shown that many of our programmes aimed at providing credit through organised credit channels, such as banks, have not had the required success. New ways and innovative forms of financing have therefore to be developed, which are based on sound commercial principles and yet help to alleviate poverty.

**Credit Programmes for the Poor**

3. A number of programmes have been designed specifically to enlarge the flow of credit

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to the poor. The main thrust of these programmes has been to provide financial assistance to the poor by way of capital subsidy and bank credit so that they can improve their economic condition. In pursuance of this, formal credit institutions have been required to ensure that a proportion of credit disbursed is channelised to the weaker sections. Commercial banks are now required to provide 40 per cent of their net bank credit to the "priority sector", which *inter alia* includes, agriculture and allied activities. Twentyfive per cent of advances have to go to the weaker sections. A multi-agency approach for rural credit delivery has also been adopted, involving commercial banks, cooperative banks and RRBs. A vigorous rural branch expansion programme was undertaken to increase the rural credit outlays for facilitating easy access to credit. Besides, several programmes have also been designed for a direct assault on poverty, such as the (i) Differential Rate of Interest (DRI) Scheme, (ii) Integrated Rural Development Programme (IRDP) and (iii) Self-Employment Programme for Urban Poor (SEPUP) (since merged with the Scheme of Urban Micro Enterprises - SUME). The main objective of these schemes has been to assist the poor with credit so as to create income generating assets.

4. Women beneficiaries have been given special concession under the various Government programmes and special targets have been provided for women. Thus, for example, under IRDP, 40 per cent of the beneficiaries have to be women. Besides, under IRDP, a special sub-scheme known as Development of Women and Children in Rural Areas (DWCRA) has been formulated. Under this, women forming themselves in groups are provided with special credit facilities. RBI has recently taken a decision that women of even

defaulting husbands may be given credit facilities when they form themselves in groups.

5. During 1992-93, banks assisted 2.1 million beneficiaries under the IRDP. Out of these beneficiaries 1 million forming about 49 per cent (against the target of 50 per cent) belonged to scheduled castes and tribes, and 0.68 million or about 33 per cent (against the target of 40 per cent) were women. The outstanding advances of public sector banks as at the end of March 1993, under the DRI Scheme amounted to Rs.7.05 billion in 3.0 million accounts. These advances accounted for 0.63 per cent of the total outstanding advances which is somewhat lower than the target of one per cent laid down for the Scheme. In all, as at the end of September 1993 the advances of public sector banks to weaker sections constituted about 9.28 per cent of their net bank credit, as against the target of 10 per cent.

#### **Some Reasons for Ineffectiveness of the Programmes**

6. Broadly speaking, these efforts, while impressive in quantitative terms, have not brought about the desired results. The cumbersome lending procedures, inadequate supervision and at times the apathy of bank staff, have resulted in delayed and untimely credit, which has been responsible for the large scale misutilisation and default of credit. Generally, the recovery to demand in regard to these poverty alleviation programmes has been very low. The recovery under IRDP has been below 30 per cent. There are several reasons for the low recovery performance of the banks. The evaluation studies of IRDP in particular and other programmes have revealed that the main reasons are incorrect identification of beneficiaries and activities, inadequate availability of proper infrastructure and the lack of adequate marketing facilities. Several studies have indicated that the percentage of beneficiaries of IRDP who might have crossed the poverty line is around 20 per cent. The 'target' oriented approach has also compromised

with the quality of the programmes. Misutilisation of funds through diversion or non-creation of assets, and selection of activities for financing without proper reference to its viability, have also been observed.

#### **Peoples' Participation in Credit Delivery and Recovery**

7. Several modifications have been made in the IRDP itself to take care of some of these deficiencies. RBI has recently constituted a Committee under the Chairmanship of a Deputy Governor to study in detail the issues relating to IRDP. Obviously, there is considerable scope to improve the rural credit delivery system of commercial banks even within the existing framework. Improvement in efficiency, with effective reduction in transaction costs of lending combined with a more positive attitude on the part of the bankers towards the poor, can provide a significant change to the character of these programmes.

8. Given the fact that the poor both in the rural and urban areas do not have the necessary capabilities to approach and negotiate with organised credit institutions, the linking of formal credit institutions with the rural and urban poor, through intermediaries such as Non-Governmental Organisations (NGOs) must be thought of as an alternative mechanism for meeting the credit needs of the poor. The linkages between the credit agencies and the Self-Help Groups and NGOs, are still in the process of evolution and serious efforts are called for to explore this area fully. I think, it is in this context that the present seminar serves as a useful forum for an in-depth discussion on these issues.

9. The establishment of Self-Help Groups can be traced to the existence of one or more common problems around which the consciousness of the rural poor is built. The Group thus is normally a response to a perceived need, besides being centred around specific productive activities. These Groups also promote

savings among their members and use pooled resources to meet the needs of their constituents.

10. Initiating and monitoring the credit programmes for the poor can be made more effective and less costly if banks make attempts to organise the poor in Self-Help Groups whereby peer pressures can be used to ensure proper utilisation of credit and prompt repayment of loans. Apart from the powerful influence of peer pressure, the Groups can also contribute towards improving the quality of lending by offering loans in a prompt and simple manner, ensuring need based loans, and keeping the loan size within the repaying capacity of the borrowers. Undoubtedly, Self Help Groups have the advantage of better knowledge about their members as compared to the bank staff.

11. The main advantage to the banks of the link between them, the Self-Help Groups and NGOs, would be the externalisation of a part of the work items of the credit cycle, viz, assessment of credit needs, appraisal, disbursal, supervision and repayment, reduction in the formal paper work involved and a consequent reduction in the transaction cost. Improvement in recoveries will lead to a wider coverage of the target group. A larger mobilisation of small savings would be equally advantageous. The link would also be advantageous to the groups on account of a larger quantum of resources as compared to their meagre corpus generated through thrift and access to better technology and skill upgradation through different schemes of the banking sector.

12. The role of voluntary organisations is somewhat distinct from Self-Help Groups. NGOs have a role in organising the rural poor into Self-Help Groups and in ensuring their proper functioning. In several countries, they have promoted a number of credit based Self-Help Groups and also developed successful credit programmes for the poor. So far, in the Indian context, NGOs have concentrated their activities in the areas of education and health, and to some extent, with development activities

in general. Their role in providing an effective link between organised credit disbursing agencies and those who have the need and are eligible to obtain credit from such institutions, has been minimal. We have today, a fairly large number of programmes aimed towards providing credit to the poor. Their effective utilisation by eligible borrowers can be enhanced if NGOs gain the necessary institutional strength to forge linkages with the formal credit agencies and reach out to the poor for their credit needs. Their mediatory role can go beyond facilitating the obtainment of credit and monitoring its effective use and recovery. The improvement in the recovery performance will lead to increased credibility of these poverty alleviation programmes and result in effective recycling of credit.

13. The concept of peoples' participation has been tried by several developing countries the world over. Phillipines, Indonesia, Bangladesh are some such countries. The success of Bangladesh Grameen Bank to provide financial assistance to the rural poor (particularly landless women labourers) on reasonable terms for generating productive self employment has gained wide recognition. Here the loan proposals are entertained only on group basis. The rate of interest charged is generally 16 to 16.5 per cent. Its recovery performance was 98 per cent in 1988 which was a world record. The Bangladesh Grameen Bank indeed provides several lessons, in terms of mobilisation of resources, lending policies and procedures, and recoveries.

#### Conclusion

14. The magnitude of the problem of poverty faced by the country is immense. The Expert Group on Estimation of Proportion of Number of Poor appointed by the Planning Commission, of which I happened to be a Member, has estimated that in 1987-88, the percentage of persons below the poverty line was 39.06 per cent in rural areas and 40.12 per cent in the urban areas. For the country as a whole, it was estimated to be 39.34 per cent. The new

estimates are higher than the earlier official estimates. A substantial decline has occurred since 1973-74 in the proportion of people below the poverty line. Nevertheless, in terms of absolute numbers, people below the poverty line is very large and there has to be a multi-pronged approach to tackle the problem. We will need wage employment programmes or some forms of employment guarantee schemes to take care of the very poor. We will also need an effective public distribution system which can provide essential supplies at subsidised prices to the rural poor. Programmes with a combination of subsidy and credit are also required to give to the poor opportunities to employ themselves in productive activities.

15. India is placed in a unique situation. We have put in place a number of credit-based poverty alleviation programmes. Commercial as well as cooperative banks are already actively involved in these programmes. The magnitude of these programmes can be perceived from the fact that during the Seventh Plan, covering the period 1985-90, the total investment made under IRDP was Rs.86 billion, of which, term credit extended was Rs.53 billion. The total number of families covered under the scheme was approximately 18.2 million. The RBI and NABARD, besides providing policy guidelines, have been playing an important role in enlarging the flow of credit to these programmes by providing refinance assistance to participating banks.

16. The need for accelerating the flow of credit to the rural sector is therefore well recognised. Several steps will be initiated during the coming year to achieve this purpose including changes in the modalities of the credit delivery system. In fact, the increased flow of

credit for short term agricultural operations during the current year 1993-94 was facilitated by the increase in the refinance provided by RBI to NABARD from Rs.2,700 crores to Rs.3,700 crores. One aspect of rural credit is credit to the poor, which has its own special features. In that sense extending credit to the poor in the urban areas and rural areas has similar characteristics. The factors which constrain the capacity of the poor to borrow from organised credit institutions are: lack of skills, unawareness of economic opportunities and of markets, what they are capable of producing and their inability to overcome bureaucratic requirements. However, while we have designed special programmes with a combination of credit and capital subsidy to help the poor, we need to get the most out of them.

17. It is in this context that we need to view the important role that NGOs and Self-Help Groups can play. Since the institutions and the programmes are already in place, what is essentially required is to improve their implementation and effectiveness. The basic role of NGOs will be that of catalysts which facilitate project formulation by banks on the one hand and its effective implementation by the beneficiaries on the other. They can help banks in the follow-up and supervision of the projects and ensure that expected results are achieved. Deficiencies in the implementation of the projects can be brought to the notice of the concerned authorities promptly for remedial action. The issues involved in enabling NGOs to work closely with banks and other institutions need to be explored in full so that they can become not only effective catalysts but also efficient conduits in the disbursement of credit to the poor.