

MYRADA

Rural Management Systems Series
Paper - 3

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CREDIT MANAGEMENT SYSTEMS

In the past, MYRADA has focused on improving the efficiency of credit Delivery systems, trying to make them more responsive to the needs of the poor. Our efforts were directed towards trying to persuade and pressurise banks and cooperative societies to advance credit to the poorer sections of the rural population, and to do so in time. To facilitate this transfer we often made deposits in these banks and cooperative societies, which worked as incentives or as risk and collateral coverage. As far as cooperative societies were concerned, our efforts also included increasing the membership to cover more numbers of poor families and motivating the Management to increase the representation of the poorer people on their Boards. Training was given to Society staff; in addition, often infrastructure like godowns and offices were also provided. The constant contact that MYRADA staff maintained with these financial institutions helped to move resources, though the issue of timely credit with regard to agriculture continued to be a problem and often MYRADA advanced loans that were later reimbursed. Similarly, MYRADA also assisted the staff of these institutions in making recoveries, often providing vehicles and accompanying the bank and cooperatives' staff to the villages to make recoveries in kind. Thus `extension' for credit and related services was encouraged to penetrate further into the rural areas.

However, in many cases the solutions were not permanent and in some cases they did not address the problem at all. The issue of timely agricultural credit continued to pose a problem; MYRADA could not hope to cover all needy farmers with direct advances and further, what would happen when we pulled out of the area? Secondly, banks advanced credit to the poorer farmers for programmes that they determined were viable irrespective of whether the borrower felt that way or not. The calculation of viability frequently failed to take into account the preferences, resources and skills of the family taking the loan. Some schemes were predetermined and could not be modified or changed to meet the real needs of the borrower. Small, short duration loans for business activities were not forthcoming. On the whole, others made decisions for the people even when they received the money. The patronage system continued. Thirdly, it was absolutely out of the question to approach the bank for small loans to meet urgent consumption loans like a sickness in the family. These and other such problems (bureaucratic procedures being the last but not the least of them), continued to distance the poorer people from the formal credit institutions and accounted for the continued relevance and popularity of the moneylender in every village.

If commercial banks were governed by policies that were formulated at the national level over which individual bank branches operating in remote villages had no control, the cooperative society was certainly envisaged to be a different kind of an institution. It was a concept born out of optimism and faith in human nature. It was conceived of as the most representative form of people's organisation. It was an institution owned and governed by its members. It was highly localised. Its by-laws could be framed to permit a wide range of activities to be taken up to meet the specific needs of its members. With Government support it was possible for the Society to control and administer fairly sizeable resources with which to meet the needs of members. It could engage in business activities and earn profits that were exempted from taxation. It could distribute these profits among members as an incentive to cooperate more and benefit further. Its management could be changed by members whenever it posed a threat to efficiency; its by-laws could be changed by members whenever they felt their needs had changed. Conceptually, the cooperative society could not be faulted. Yet, almost all the societies that we came in contact with in our project areas were either defunct, or on the verge of becoming defunct, or kept alive with artificial props.

The money lenders were exploitative because they were motivated by personal gain; the banks had limitations on account of structure and policy. But what accounted for the failure of the cooperative society?

From our long and close association with cooperative societies we were able to isolate some factors which we felt had contributed to the present situation.

1. Cooperative Societies were made up of socio-economically heterogenous groups of people. Big farmers and landless labourers could both be members of the same society. Not surprisingly, the socio-economic relationships that existed between members in their day-to-day lives were carried over into society meetings also. The needs of a casual labourer are different from the needs of a big farmer. But under conditions of inequality, the poor often have to give in to the powerful. The economic barrier and the caste barrier were too strong for all the people to function together as a composite unit. The society was not "socially viable"; it was not homogeneous.
2. Cooperative Societies had a membership that was too large for effective communication. Meetings were attended only by a fraction of the members; discussions were limited to a further fraction of those who attended. Most people were not even aware of what it meant to be a member of a cooperative.
3. On account of the large size decision making was delegated to a small group of members; they represented the other members. This group became even more powerful and often took decisions favourable only to itself, ignoring the needs of the vast majority. Further, representation of poorer farmers on the Board did not

automatically ensure that they participated effectively at meetings to see that benefits actually reached the poor.

4. Some of the rules of the Government also worked against the poor. Fresh lending, for example, was only possible if 40% of the loans of the society as a whole came back. Rich farmers with large loans defaulted because to them it did not matter whether they got another loan next year or not. Poor farmers, with good repayment records, dependent on the society for loans each year, suffered because of curbs on lending on account of the high rate of non-recoverable loans of the big farmers.
5. The Cooperative Movement, though conceived of as a means to support the rural people, was a movement that did not emerge from the people. It was a movement that was State sponsored and State supervised and hence, the majority of the people could not relate with it. It created an impression that it was an extension of the Government and the people did not feel any sense of responsibility towards it. Further, the societies were bound by rules so rigid that it killed all flexibility and voluntarism.
6. Last but not the least, cooperatives were controlled and exploited by politicians who used them as stepping stones to power.

These, we felt were major contributory causes to the breakdown of cooperative societies.

Mention must also be made here of the Village Development Associations(VDAs) organised by MYRADA from around 1982 onwards in the different villages of our projects, through which developmental programmes were channelled. Apart from others functions VDAs also took the responsibility for monitoring inputs and recoveries on credit issued by the financial institutions through MYRADA's initiatives. They consisted of members from all strata of the village society. The VDAs were effective for delivering and monitoring a package of programmes chalked out by MYRADA, the banks and the cooperatives, but they did not provide a system and a culture to allow the people to meet as equals, encourage local initiatives, manage credit and build up a common fund and a programme in which they all had a stake.

Over a period of time it was seen that these VDAs too were not an effective instrument of development mainly because of the heterogenous membership and the delegation of decision making to a small committee usually drawn from the upper caste and class. MYRADA's presence, while preventing the rich from receiving any benefits, did not stop them from taking the credit for providing resources to the poor. The patronage relationship between the rich and the poor was thus strengthened. Further, there was no opportunity for the weaker members to build up their skills and resources and gain control over their own lives.

IN SEARCH OF ALTERNATIVES : CREDIT MANAGEMENT GROUPS

While making an earnest search for alternatives we noticed that there were a few small groups of women organised by one of our women staff who had been encouraged to make weekly savings of whatever small amounts of money they could put aside. Of their own accord they had made some rules to discourage withdrawals until their accounts had reached a certain size. However, sometimes there were occasions when one of the group members needed money urgently and needed a slightly bigger amount than what she had managed to save. Since there was money available in the group the other group members saw no harm in making advances out of the fund after they had checked out the genuineness of the need and agreed upon a rate of interest, mode of repayment and time frame for repayment. Why should a fellow member approach a moneylender when her own group had the means to support her? In the bargain, not only would her need be met without her being caught up in the cycle of indebtedness, her group too could expand its resource base with the interest earned.

We felt we were on the verge of an answer. When the large Cooperative Society on our Project at Kadiri broke up of its own accord into 14 small groups our Project Officer tried his best to bring them together again but realised the futility of it when they explained to him that they distrusted the leadership and that in any case, their needs and interests were too varied for them to be adequately considered and met through the Cooperative. They preferred to meet as small independent groups with members sharing common concerns and a feeling that they could trust and work with one another. There was merit in this argument. That year, when the agricultural season came, instead of approaching the Cooperative for crop loans the groups approached the MYRADA Project Office for working capital support. They had had many meetings to calculate what their requirements were, how they would use the money, and when and how they would repay it before they approached MYRADA with their request. The staff were initially uncertain but finally decided to take the risk and advance them the money because the agricultural season was upon them, the moneylender was the only other option, and because they felt that the group deserved this chance. What they then noticed was that not only was the money managed more carefully there was also a far greater responsibility and commitment from the group as a whole towards repaying this amount, something that had never unduly bothered the people when they were dealing with the Cooperative. Significantly, on this occasion there was little pressure on the staff to help with decisions and chase people for recoveries.

In studying these groups MYRADA isolated some features common to all of them that could explain why they were more efficient and responsible.

The new groups were small, homogeneous with regard to concerns, needs, and interests, fully participative (i.e. since decisions would affect all of them, they all participated in decision making, instead of delegating it to a committee), voluntary and non-political. In some places the members belonged to different castes, in others they were all from the

same caste; some included both men and women, others just the one or the other; in some cases all members practiced the same occupation, in others they differed but were of the same economic status. But they all had the features mentioned above.

Further analysis has led to the realisation that -

- a> Providing inputs to an individual family is not sufficient to raise the family above the poverty line and to keep it there; it is possible to lift the family above the poverty line for a while but it requires support to remain there; this support is part of the backward and forward linkages as well as the basis of the environment of social security and mutual assistance which the poor family requires in order to take risks and launch out into new fields. The groups effectively meet these requirements.
- b> Provision of inputs directly to individuals often results in a higher opportunity cost to the individual; in other words the cost of maintaining the new input is often higher than the cost incurred previously. This is because the family opted for an input because it knew MYRADA would provide it. The group on the other creates an environment in which the family will not ask for a resource that cannot be maintained because the other members will refuse the credit knowing fully well that it is not viable.
- c> Provision of inputs directly creates a relationship of debtor-creditor between MYRADA and the individual. This is an unhealthy relationship and undermines all MYRADA's efforts for community organisation and motivation. Further, MYRADA's image of a lender is soft, since it is seen as an organisation that is sympathetic towards the poor.
- d> The general culture of recovery is poor and the people do not feel responsible to return funds to banks, cooperatives or even to MYRADA.

Further, the cost of repayment is high - the few debtors who feel responsible to return funds have to often travel 5 - 10 kms. to repay the banks and cooperatives whatever small amount they can, often at the cost of a day's work. This acts as a disincentive for prompt repayment. On the other hand the lending operation of groups does not create a debtor-creditor relationship. Being a member of the group a loanee is simultaneously a debtor and a creditor. He/she hence feels responsible to repay back on time. The group being right at his/her doorstep, a loanee can return funds without incurring costs. The group can and does apply pressure on the few members who do not repay back promptly.

- e> Some of the needs of poor families cannot be met by giving inputs for the economic development of individual families; eg. drinking water, access to health services, roads and transport, etc. As in India we operate with scarce resources, the poor

people have to get together and lobby with the Government to mobilise this infrastructure. Further, some of these assets have to necessarily be managed collectively - by all the people in the village. The small groups in each village come together to lobby for the management of these assets and services.

- f> Educating each and every individual family is neither possible nor sufficient to bring appropriate changes in the values and attitudes of the family. For eg. changes in attitudes towards women, scheduled castes, other religious groups etc. The social values of families are largely shaped by the values of the people with whom they live and interact. Hence, it is imperative that we work with all these people collectively if we want to bring about changes in the values and attitudes of individual families.
- g> Groups foster the emergence of innovative, appropriate and replicable ideas by providing the people opportunities to come together, share and learn from each other's experiences. This is not possible in an individual approach.
- h> Groups throw up new leadership in the village. These emerging leaders who have the support of the group are chiefly from the economically weaker sections, unlike the traditional leaders who belong to the upper caste and class. This is reflected in the fact that people in the village have already started looking up to the group rather than the traditional leaders to help them solve their problems.
- i> The group approach has brought to the surface many operative latent traditional values like group support, thrift, group action. These values existed and were operational within caste groups. This society is now breaking up or has broken up and the values have become latent. However, once a group begins to function as our groups do, which have been formed on the basis of social functionality, these latent values become activated. This is proved by several decisions taken by the groups which affect their behavioural pattern.

Since then MYRADA has been actively encouraging the formation of small groups of families with similar needs and interests and in consultation with the people, studying ways of how their functioning can be further refined and enhanced.

A few of the additional features of these groups now are :

1. All the groups encouraged their members to save. Whether savings have to be made daily, weekly, or monthly and whether or not they have to save a certain minimum and/or uniform units are, however, decisions that differ from group to group.
2. All groups have certain rules that discourage members from making withdrawals before a certain length of time and/or before their balance has reached a certain

size. This ensures that the group always has some capital with it, with which to advance loans to members and earn interest for itself. However, there are exceptions to this rule also.

3. All groups have provision to advance loans to members. How much to advance, to whom, under what circumstances, for what purposes, and at what interest rates are decisions taken at the group level and may differ from group to group. Some groups have decided that loans for contingencies such as sickness, funerals, rebuilding a house that has been burned down, etc. will be charged a lower rate of interest than loans for income-generating programmes; some groups agree that loans taken for investment in quick, profit earning ventures can be charged a higher rate of interest; some groups have rules that at present prevent them from making larger advances for purposes such as buying a pair of plough bullocks or sinking an irrigation well; most groups agree that members who do not sincerely attempt to save and who do not take responsibility or participate actively in the affairs of the group will not be advanced loans and may even be asked to leave the group. Some of the most common purposes for which loans are advanced are as follows :

- Agricultural credit: the advantage of approaching the group for credit is that there is no paper work involved, credit will be available on time and members can negotiate the amounts they require instead of accepting a pre-determined package.
- Sickness and accidents requiring emergency relief.
- Social occasions such as marriages and funerals. The above two are the most common causes for people becoming indebted to money lenders.
- Short-term credit for small business purposes. Left to themselves and free of feasibility studies, many rural people are quick to spot a business opportunity that they feel they can take advantage of. Often, loans (working capital) are required for quick-return business ventures (eg. trading in seasonal flowers and fruits) that can be paid back within the space of a few weeks. If this money is not available, it is a good opportunity lost.
- Small loans to be invested in income-generating programmes. While a farmer may be eligible for a loan package that can buy him 20 sheep, what he may want and can manage is only 2 sheep. A credit group understands such priorities much better than a bank can.

- Credit for educational and travel purposes. Though not a very high priority need, some families have ambitions that can be met through the credit group.
- 4. All groups have strategies for making recoveries. These strategies may differ from group to group. Some have agreed that one set of members must fully repay their loans before the next set of members can be advanced; some groups agree that if repayments, however small the instalments, begin to be made from the very next week of a member having taken a loan, then the rate of interest charged will be nominal, otherwise it will be compounded with each week that passes without repayments. Whatever the mechanism, the strategy is to keep up group pressure on members to repay.
- 5. All the groups have the flexibility to help members cope with crises that can threaten to affect repayments. Some groups have a system of insurance to cover crises; others re-negotiate the time frame for repayment and the rate of interest payable; others accept repayment in one form or other than what was initially agreed upon.
- 6. All groups are engaged in or thinking of, certain group income-generating activities to expand their resource base while meeting some community needs. Some deal in seeds and fertilisers, others may own and rent a breeding bull, ram or boar, others have community fodder plots or feed- mix plants, some own and rent out agricultural implements, some have forest nurseries, and so on.
- 7. All groups emphasise - in addition to individual savings - the development of a common fund through which crisis situations can be met, community development activities taken up etc. Contributions to this common fund can come from interest on loans and savings, income from group income-generating programmes, fines collected from members for certain lapses, donations, and in some cases weekly/ monthly contributions made by members in addition to savings.

Upon request from these groups, the resources mobilised by them may be matched with some funds from MYRADA. MYRADA has recently been successful in interesting the National Bank for Agricultural and Rural Development (NABARD) and CAPART to make a contribution to support these groups as well as study their efficiency as an alternate credit mechanism for rural areas.

With the formation of these groups the focus of MYRADA has expanded to include not only credit delivery but also the management of resources by the poor.

These groups are not just part of another MYRADA programme. Neither are they channels through which MYRADA delivers development programmes. They have features of a movement and mark the shift in focus from delivering development programmes

through "extension services" (which implies that `we' know and `they' don't) to building up of groups with appropriate structural features, skills, attitudes and resources to sustain a process of development that the poor can understand and control.

This strategy fits in well with MYRADA's policy of withdrawal. It is to equip ourselves as well as others in the field including the people themselves, with appropriate skills and attitudes that the Development Professional's Training Programme(DPTP) towards Management for Change has been designed and carried out.

NOTE :

The Credit Management Groups are only one of the several rural institutions that have developed to manage resources. There are other groups that manage common resources such as seed banks, drinking water management committees, watershed associations, etc. without managing credit. Milk Societies are another good example. But these groups are structurally and operationally different from the Credit Management Groups, and meet a different kind of need. The milk societies, for example, include all classes and are neither socio-economically homogeneous nor small. Yet they are viable because they are based on the value of the product handled, which is the same for the rich and the poor, and there is an established system to assess the value of the product.

- Footnotes :
1. The experiment with NABARD and the subsequent RBI guidelines led to a pilot project on linking self-help groups with banks. This has now progressed beyond the pilot phase and is a programme that is operational throughout the country.
 2. The Development Professionals' Training Programme (DPTP) referred to above is an in-house training programme of MYRADA to enhance the knowledge, skills, and capabilities of MYRADA Staff not only to respond with greater sensitivity to field issues but to also communicate our learnings to others who share our concern for rural development.