

FINANCIAL INNOVATIONS FOR THE RURAL POOR THE ASIAN EXPERIENCE

The concept of granting loans to the poor is not new. Increase of agricultural production and giving relief to the poor as part of the development strategies of the Third World were emphasised from about the beginning of the 1950's. Importance of credit as a basic requirement in the agricultural development strategies meant for a majority of the world's poor has been admitted for a long time. This has been particularly due to the scarcity of working capital. It was only to a limited extent that the small farmers were able to get loans from the institutional sources. The banking community too showed little interest in directing their activities to the poor.

However, much of the special agricultural banks, major development projects, co-operatives and various non-governmental organizations tried to fill this gap, such services did not reach the poor or reached them only to limited extent (Egger, 1986). While many have introduced valuable innovations in banking formalities and procedures and in organizational structures, they have not as a rule, prompted the banking systems to face up to the needs of the vast majority of the rural population who are generally forced to rely on informal and often exploitative sources of credit. The commercial banks and the development banks failed to effect any considerable change in rural areas and banking

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By **Lakshman R. Watawala**
Chairman, People's Bank

remained distant from the villages and rooted in the urban areas (Panos, 1989). The commercial banks as well as various external organizations and organizations that have emerged from amongst the poor are introducing financial innovations and experiments to remedy this shortcoming.

2. Rural Poverty; Magnitude and Trends:

During the last two decades, developing countries in Asia made significant progress in agricultural production and rural incomes. There have been remarkable improvements in the countryside with expanded transportation networks, better communication systems, more

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developed irrigation infra-structure and other modern construction. However, it would be rather presumptuous to conclude from these developments, that all the countries have reached the take off stage in their development process. The available literature suggests that although income per capita have increased in absolute terms, the poor have become poorer or have continued at the same level.

More than one billion people in the developing countries live in poverty and

nearly three fourth of the world's poor live in the Asian Region (IBRD, 1990). The poor people are concentrated largely in the rural areas. It is a fact that the poorest sections of the rural people, who hire themselves out as casual wage-workers in agriculture or other sectors. These people only have their labour power to sell.

3. The Needs of the poor and Access to Credit:

The very poor in developing world in general, and in Asian countries in particular, lack funds to increase production and improve their living standards. Credit can help their people to accumulate assets and maintain their consumption levels during hard times. But the Rural/Urban poor do not have the collateral that the banks expect. The poor find it difficult to follow loan facilities. They do not have the money necessary for various stamps. The poor are hardly able to reach the banks during these restricted hours. The villagers have to walk for hours or make long journeys by bus to come to a bank. Due to these limitations, it has been possible to meet only 15 percent of the credit requirements of the poor in Asia (IBRD, 1990). The situation is still worse when different countries are considered.

The requirements of the rural poor are mainly to protect their paddy cultivation, to buy a sewing machine, to purchase

the ingredients for making pickles or to borrow money in case of sudden illnesses. However, the banks show little or no interest in such small loans. The banks are unable to make money available to the poor for such necessities when they need it. Due to traditional banking for matters it is difficult for the rural poor to obtain loans from the banks. That is why they go to the money lender in spite of his higher rates of interest. The result is that the Asian poor are often caught in the debt trap.

Therefore, it is necessary to target at rescuing the poor from the clutches of money lenders through extending the banking services to the men and women of the weaker sector of the society. Because labour is restricted, financial living facilities must be provided in such ways as to give opportunities for self-employment. It is necessary to give financial assistance to promote mutual help among disadvantaged groups. It is

larges, the delinking of loans from specific activities such as agriculture, more simplified procedures and better information on the bank's objectives and mode of operation.

4.1 Credit programmes for the rural poor have been started at different scales on the initiative of state institutions (ie. commercial banks, co-operatives and other lending institutions) and non-governmental organizations.

Foundation (Sri Lanka), Christian Commission for Development (Bangladesh), Coolie Credit Fund (India), Foundation for Prosperous Indonesia (Indonesia), PNN Scheme and Start-up Enterprise Loan Scheme (Sri Lanka) are some cases in point (See Table 1). They offer the rural and urban poor new opportunities to acquire the resources needed to regain control over their lives.

4.2 Credit Programmes for the poor in Sri Lanka:

Until recently there was no special loan scheme for the weaker sections in Sri Lanka (Das, 1986). But the People's Bank which pioneered the supply of rural credit conducted a number of programmes for the rural sector and rural poor mainly through its rural credit programmes, through its functioning as a pawn-broker and through special savings schemes.

Under special programmes such as 'Gam Pubuduwa' banking services were directed to selected target groups through special projects (Fonseka, 1986, Sandaratne 1990). In addition under the 'Athamaru Loan Scheme' (Hewagama, 1977), it provided necessary loan facilities not only to the rural poor but also to those in the urban informal sectors and thereby started directing institutional credit to them. Among various other attempts Start-up Enterprise Loan Scheme, PNN Scheme, Self-employment Loan Schemes, three-wheel Scooter Loan Scheme are some of the programmes started recently to alleviate poverty (See table 2).

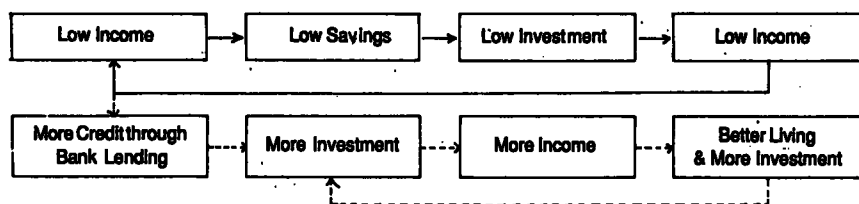
Janasaviya Programme

The present Poverty Alleviation Programme (ie. Janasaviya) adopted in Sri Lanka focusses on people-based production by setting up of small production units at village level. Under this programme each poor family will receive Rs 2,500/- a month, over a period of two years, of which each month Rs 1,458/- will be invested on behalf of the recipient. Together with the interest earned from this investment over two years, each family should be in a position to find a source of sustainable and durable employment with a saving of Rs. 25,000 accumulated by the end of the period.

Collective responsibility was substituted for requirements of collateral, and the borrowers were given independence in the use of loans. Work of supervision and repayment of loans was organised on a group basis.

possible thereby for financial institutions to make a great contribution to end the vicious circle of poverty and divert it into another direction (See diagram below).

Community credit efforts such as Small Scale Enterprise Credit Programme (Calcutta), Micro Fund (Philippines), Production Credit for Rural Women



Even if the requirements of the rural poor are identified ending of the vicious circle of poverty is not easy. In the existing political - economic situations, combating poverty is not an easy task. However, attempts have been made at different levels towards this in the Third World countries, particularly in countries of the Asian region.

4. Attempts to bringing Credit to the Poor:

Access to credit is regarded as one of the pre-requisites of rural development. In recent years, efforts have been concentrated on a number of innovative methods to include the small farmers and the rural poor in credit schemes. The most important innovation in this respect has been to replace traditional collateral requirements, chiefly land, by group liability. This provision enables group members to contract loans under close group supervision and tighten bank monitoring work.

Other innovations include a better network of bank branches in the vil-

(Nepal), Small Farmer Development Programme (Nepal), Grameen Bank (Bangladesh), Aga Khan Rural Support Programme (Pakistan), Uva Grama

Programme	Year	Coverage
Micro Fund (Philippines)	1989	730
Production Credit for Rural Women (Nepal)	1989	6,640
Small-scale Enterprise Programme (Calcutta)	1989	36,000
Working Women's Forum (Madras)	1988	50,000
Small Farmer Development Programme (Nepal)	1989	78,520
Grameen Bank (Bangladesh)	1988	413,000
Kupedes (Indonesia)	1988	1,300,000
Start-up Enterprise Loans Scheme (Sri Lanka)	1990	10,280*
PNN Scheme (Sri Lanka)	1990	41,960*

* This indicates the number of beneficiaries.

Sources: World Development Report, 1990 & People's Bank Colombo.

**Table 2
People's Bank Credit
Support to the Poor**

Selected Loan Scheme	Number of Beneficiaries	Loan Amounts Rs. Mn.
(a) Start-up Enterprise Loan Scheme	20,062	251.7
(b) PNN scheme	48,623	184.2
(c) Self Employment Loan Scheme (NYSKO)	5,428	64.0
(d) Self Employment Loan Scheme (Central Bank Sponsored)	2,207	15.7
(e) Athamaru Scheme	12,267	12.7
(f) Threewheel Scooter Loan Scheme	1,624	14.1
(g) Forieng employment	68,894	298.7
(h) Electrification Loan Scheme with CEB	19,046	54.7
Total	161,138	960.8

The objective of the programme is to make the poorer people efficient producers and to organise them on viable productive endeavours in the environments in which they live.

In implementing the investment aspects of the programme the state banks of Sri Lanka launched a scheme of cheap and readily accessible credit for small scale entrepreneurs with viable projects, which are production oriented and income generating. These loan schemes have done away with strict requirements of property mortgage as security and are given on guarantees of parents or member of the family.

(a) One such significant scheme supporting the Poverty Alleviation (Janasaviya) Programme is the People's Bank's new project oriented credit scheme named the "Start up Enterprise Loan Scheme". It is intended to assist youth who due to lack of financial resources have not been able to commence any enterprise, to establish themselves in various lines of economic activity. Financial facilities are available under this scheme upto a maximum of Rs 30,000. The assistance provided in the form of machinery, equipment and a small working capital component; and also for electrification where required.

This scheme is directed at school leavers and young people between the age of 18 and 40, who had an opportunity to follow on-the-job training programmes or vocational training at recognised and acceptable training institutions. Joint applications, within the maximum of Rs 30,000/- from two eligible applicants are also being entertained. The types of projects for which finance is being provided to commence such small business/service units include: Tailoring and Dress Making; Tyre Repair Shop; Masonry; Barber Saloon; Carpentry; House Electrical Wiring; Motor Car Repairs; Shoe making and Leather Work; Light Engineering and Welding Shop; Spray Painting (Vehicles and other equipments); Motor/Push Cycle Repair Shop; Brick Making; Coir Products; Plumbing; Trading (Working Capital and Basic Implements); Pottery; Cane Work and Reed Ware. The trade could include Pingo Carriers, Push Carters and Cycle-pedlers and others.

A further facility being offered in this scheme will be the identifying of particular projects suitable for specific areas and Project profiles are being prepared. The subjects of the profiles include: Semi-precious Stone Cutting; Radio/TV repairing; Brass utensils; Paper bags;

The basic objectives of the scheme are to provide credit to small borrowers on easy terms and to extend banking facilities to areas which are inaccessible to formalised institutions. With the understanding of the credit needs of the poor and also the importance of the operation of the informal credit market the PNN Scheme provides facilities to financial 'wholesalers' to borrow from the bank and retail informally.

The lending of this scheme will be disbursed through a fund. A fund would be created for onlending for each PNN unit with bank advance and the PNNs equity contribution (ie. 15-20% of the amount advanced by the Bank). It would be necessary for each PNN operating this loan scheme to open a current account. The bank will advance Rs. 100,000/- initially and increase this sum upto Rs 200,000/- after receiving the progress achieved. The maximum advance given will be limited to Rs 5,000/- for each applicant, and loans granted for a period not exceeding 12 months.

The PNNs have a right to obtain security considered by them to be adequate. The application and demand promote in the type of security normally available to them. The PNN is to be a link between

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Washing soap; Artificial flowers; Mushroom cultivation; Mosquito coils; Writing chalk; Candles; Fast Foods; Compost fertilizer packaging; Herbal porridge; Firewood stoves; Hand Bags and purses; Iron grills and racks; Hollow blocks; Envelopes; Instant Fruit Drinks, (Cordials); Papadam and Yoghurt.

By the end of April this year the Bank had approved around 20,000 projects valued at nearly Rs 251.7 million.

(b) **The Praja Naya Niyamaka (PNN) Scheme** This scheme is another approach which commenced in the latter part of 1988 to reach the poor in Sri Lanka. Under this the two state banks will appoint 7,000 PNNs each to cover all the small administratives, Grama Sevaka Divisions in the country.

formal and informal money markets, and therefore his operations should narrow down to a bare minimum inconvenience and social disabilities caused to the poor. The bank has given much priority and prominence to this scheme as it is in integral part of the Poverty Alleviation Programme of the Government.

The People's Bank alone is already operating with 4,070 PNN units throughout the country and the scheme has provided loans amounting to Rs 184.2 million to 48,632 borrowers at the end of April 1991.

It is significant to note that loans obtained for Industrial and Agricultural purposes made up a relatively significant portion (ie. 33% and 24%) of the

loans given. Trade, livestock and housing are other important purposes of borrowing which amounted to 28 per cent (See table 3). The amount borrowed for consumption purposes are of less importance.

Table 3
Purpose-Wise Distribution of Sub-Loan Granted under PNN Scheme

Purpose	Loand Disbursed (in percentage)
Agriculture	24.0
Small Industries	21.9
Housing	13.4
Industries	11.5
Trade	8.8
Animal Husbandry	5.5
Debt Redemption	4.4
Consumption	3.4
Fisheries	1.5
Others	5.6
Total	100.0

(c) **'Athamaru' Loan Scheme** – In order to reach the not-so-well off sectors of the population and to simplify the procedures of lending money to them, the People's Bank started the 'Athamaru' loan scheme at the beginning of 1990. The objectives of this is to provide credit to small traders, fish-vendors, vegetable vendors and small peasants.

The maximum loan amount per borrower is Rs. 1000/- and the loan is given for a period of 12 months in the form of a rolling facility which should be repaid within two months. Inter-se guarantee of two persons is sufficient to borrow under this scheme. The 'Athamaru' scheme has granted loans amounting to Rs. 6.3 million to 6400 borrowers at the end of July 1990.



(d) **Janasaviya Entitlement Certificate Holders Group Lending Scheme**

The People's Bank has formulated another group lending scheme to provide

credit facilities to start self-employment projects or 1.7 million 'Janasaviya' holders. This would enable those hitherto deprived from institutional credit, to set themselves up in income generating activities.

The objective of this group lending scheme is to provide capital for the small and marginal land owning peasants, share croppers, landless labourers, small fishermen, rural artisans, refugees, widows and the handicapped with no economic base. These groups can contribute much to the rural economy and many do aspire to develop agricultural or service oriented enterprises which can provide them with an income.

These groups could be organized based on Grama Sevaka Divisions (lower level of Administrative area) and each group could consist of 10-20 members. A group leader will be appointed and the group will identify their own projects, supervise, guarantee, collect loan instalments and deposit with the Bank. Group will have a fund to which the members could contribute Rs. 50/= per month. The maximum loan amount is Rs. 5,000/= and the rate of interest is 30% per annum. The order of granting of loans will be decided by them. The number of loans disbursed per group for a month would depend on the contributions to the fund made.

Conclusion

In any anti-poverty programme as well as in long term development strategies, supply of credit – especially institutional credit – takes a very important place. But until recently such services were implemented with a strong urban bias. Though they were available in the rural areas only the elite had access to these facilities and poor were not in a position to provide the collateral the other orthodox banks demanded. The credit requirements of the rural poor have not been met sufficiently. This could be attributed as one of the main reasons for poverty. Therefore, various attempts were made in Asian countries to take banking to the poor. The full potential of the poor could be realised only by providing them with

adequate credit. It will contribute to eradicate poverty of inducing group activities. In this context the financial institutions should engage in this task with social commitment and dedication, meanwhile the response of the poor must be in a positive way.

As confirmed by the above mentioned practical examples it is extremely necessary to take banking to the poor to fulfil their credit requirements. To realize this objective, among other things, financial innovations such as meeting their daily requirements, abolition of the traditional collateral requirements could be used in a systematic way.

Among the national banks, the People's Bank has taken an initiative in this regard and was able to change the orthodox banking habits by introducing innovative credit schemes such as Start Up Enterprise Loan Scheme and PNN Scheme. The most important innovation in this respect has been to replace traditional collateral requirements. This has become a major breakthrough in providing credit to the poor towards alleviating poverty in Sri Lanka.

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