

“A Financial System Managed by Women (Case Study of Andhra Pradesh)”

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The immense expansion of India's banking network since the 1970s has largely avoided the rural poor, especially household women. Banks have not recognized women as business or commercial clients and hardly ever served them beyond token participation in certain government-sponsored credit programs. Poor rural women have been successful in showing good financial discipline in controlling the entire household economy, often setting aside tiny sums to meet particular needs, such as schooling, EMIs, weddings, or even debt redemption. Poor men and women at first use credit or savings for smoothing expenditure and then expand their asset base slowly before building up an entrepreneurial venture. Banks, being disinclined towards risk, did not offer schemes that met poor people's needs for liquid assets, the ease of access, and even investing in basic livelihood strategies. In Andhra Pradesh, India, when credits and savings were channelled through a definite community-based women's groups and used it to meet their own and others specific needs, rural financial conditions underwent a remarkable transformation and successfully catalyzed new capital formation, required asset accumulation and further increased market participation by the poor.

THE PROJECT

Indira KranthiPatham (IKP) includes two community steered rural poverty reduction schemes supported by the International Development Agency and the World Bank: the Andhra Pradesh District Poverty Initiatives Project (APDPIP) and the Andhra Pradesh Rural Poverty Reduction Project (APRPRP), executed in South India since 2000. The IKP follows a threefold approach. First, it aids to create self-managed neighbouring institutions of poor women, with economic and credit services as the most important activity. Second, it helps to increase and spread women's livelihood base. Third, it helps the poor to realize and influence market systems as a means of satisfying growth and equity. By the end of 2007, following its scheme to create a chain of command of interdependent foundations of poor people, the IKP had been successful in mobilizing 8 million women into nearly 630,000 self-help groups made of 10–15 women each from poor household settlements in Andhra Pradesh. The groups were united at the village level into 28,282 village organizations (VOs), which as a result formed 910 confederations at the Mandal level (sub district), generally called mandalsamakhyas (MS refers to sub district confederations). Group members of these confederation deposit small amounts of cash into a common pool from which other people get loans. The women only take collective decisions, closely oversee how the loans are utilised, and calmly pressurize the members to make deposits and repay the granted loans promptly. Each Village Organisation is registered officially as a cooperative confederation of self-help groups aimed to supervise and build competence through community experts. By taking up the initial risk of lending sums to the groups,

Village Organisations develop awareness among the established self-help groups on how to control and incorporate external resources. The core settled function of a mandalsamakhyasis to provide capital over the long term to Village Organisations and administer microfinance activities over all tiers of the organisational hierarchy. The MS grants seed money and so called venture capital to newly created VOs, invest in those VOs' new businesses start ups, extend handholding assistance, and build incentive schemes to encourage better performance.

INNOVATIONS IN THE PROJECT

Over the passing years the self-help groups and their confederations have expanded the ambit of their services and now proposes social and economic services along with financial services. Services have developed mainly through incremental advancement of community institutions. The innovative constituents of community along with the "microfinance plus other services" scheme they developed are explained in the following sections.

1. A community-controlled financial system includes certain elements such as:

- Social mobilization, within the self-help groups, Village Organisations, and MSs through their transparency, democratic authority, and comprehensive decision making.
- The economic and credit system, by which self-help groups direct their remaining capital into the local established economy. ¹
- A comprehensive management information system based on ordinary books of accounts often handled by a paid bookkeeper usually as a group member or a woman from the local community.
- A quality evaluation system for women to reassess their performance by a Critical Rating Index which is developed in consultation with the NABARD.
- The money capitalization of self-help groups and their confederations as they invest the interest earned and other fees collected. Profits are also invested in further loan granting, and the entire groups' assets increase progressively. ²
- Influence of external finance by established self-help groups from Village Organisations or from several other local commercial banks.

¹Hashemi, Syed, Sidney Ruth Schuler, and Ann P. Riley (1996). "Rural Credit Programs and Women's Empowerment in Bangladesh," World Development 24 (4): 635 - 653

²World Bank (2003). "Microfinance in India: Issues, Challenges and Policy Options". Washington DC: World Bank

■ scrutinizing of loan recovery board at the VO stage of the end use of finances and forming a recovery mechanism by supporting local commercial banks in maintaining the values of their microfinance.

2. The “microfinance-plus” approach. Apart from providing finance loans, the IKP three-tier institutional scheme presents a range of other services that support the livelihoods of the poor people. This approach of reducing poverty differentiates IKP from other settled microfinance programs with their modest approaches. Following the universal principle of institutional subsidiarity, each tier focuses in the creation, or grouping of those services that make economic sense towards all.³

MACRO LEVEL IMPACT

Women make markets work for the poor in several ways:

■ First, by building a new financial sector; Immobilizing poor women and helping them to build reactive, self-reliant, and also financially sustainable organisations, the IKP project turned the long-held beliefs in the old banking system. The women manage a fund of \$1 billion, which also includes their own savings of \$349 million. Over seven years, they controlled a cumulative \$1.2 billion from other commercial banks, which made IKP as one of the world’s most efficient and largest microfinance inclusion efforts.

■ Second, by widening the access to finance; Microfinance now figures significantly in the corporate strategy circle of several banks, and their overall lending to women has increased several fold since the project began.

■ Third, by utilizing the promising coproduction scheme in rural finance; The traditional financial functions of commercial banks in providing loans to the poor people is now externalized to the women’s self-help groups.

■ Fourth, by introducing a livelihood focus and to promote it among the poor people; The asset base of the poor people assisted by IKP now stands at more than \$1.3 billion. These assets includes range of livelihoods and are certainly expected to generate higher turnover, leading to increased incomes for the poor. Banks have now become much interested in introducing new schemes for emerging opportunities.⁴

³Srivastava, Pradeep and Shukla, Rajesh (2004). “*Rural Financial Access Survey : Summary Findings*”. Background paper prepared for the World Bank. World Bank, Washington DC.

⁴Mahajan, Vijay and Ramola Gupta, Bharti (2003). “*Microfinance in India: Banyan Tree and Bonsai*”. Background paper prepared for the World Bank. World Bank, Washington DC

■ Fifth, by making literacy a strategic product; Perhaps the most long-term impact of the women-controlled rural financial system is the financial literacy among poor women. The training has till now developed 98,000 bookkeepers, more than 3,000 microcredit experts.

INSTITUTIONAL IMPACT

Major gains are made by women's institutions and their respective partners:

■ Benefits of leveraging finance; Extension of bulk finance to self-help groups has reduced the transaction costs for many financing agencies to extend their credit providing service to poor women. At the same time these self-help groups are also encouraging the financing agencies to make higher credit grants and commitments—ultimately this will benefit both the groups and the commercial banks.

■ Profits for banks and restraints on credit markets; The recovery of the loans granted to women's self-help groups and their confederations is more than 95%, mainly because of community supervision and follow-up procedures executed by the women. Reduction in transaction costs and a good recovery environment has significantly improved the profits of rural banks, and in local markets for credit, interest rates have dramatically decreased, and malpractices have been limited.

■ Entrance to markets of the poor and encouragement of private involvement; The group structure and schemes helped poor women to gain access to commodity markets and form partnerships with the booming private sector, hence improving their involvement in the wider economy. A large number of groups of suppliers and consumers are attracted to such global partners as ITC, Pepsico etc.⁵

■ Women's networks as social service providers; The carefulness shown by women's networks in providing support services to the poor people has encouraged development agencies to work along with them on such schemes and programs as old age pensions, education providing, midday meals for children, and health as well as ambulance services.

HOUSEHOLD IMPACT

Women get credits and gain several skills and confidence in different ways:

■ By making savings more productive and decreasing the debt burden. The internal accumulation of capital in these self-help groups helps all members in proportion to their individual contribution of savings.

⁵Deshpande, Ramesh and Verma, Niraj (2003). "*Review of Rural Finance Institutions in India*". Background paper prepared for the World Bank. World Bank, Washington DC

■ By initiating a upright cycle of rising incomes and prosperity. Continued access to debts has helped poor household women to accumulate productive assets at a initial level. The inspiring credit history of several women not only develops their creditworthiness but also increases the flow of credit and debt for diverse purposes.⁶

■ By being observed as creditworthy. Several Banking statistics confirm that the overall repayment environment has improved after the women's self-help groups were established. But still banks remain unwilling to make large loans to men and women now are regarded as their valued clients, and these banks are not anymore averse to extend large loans to women

■ Gaining business skills;The management of low level and rural financial schemes by women not only introduced leadership skills but also served as good guidance for developing organisational management and other negotiation skills. Empirical learning helped women to contribute in markets and negotiate the big market positions, which significantly enhanced their business confidence.⁷

■ By encouraging consensual decision making;As men and women both were involved in microcredit finance controlling and planning, men started to see women as their partners in earning a livelihood for household.

■ By helping men to regain their business attires and confidence. Women managed interference to provide significant livelihood support services, such as providing agricultural contribution and marketing commodities, this not only increased accessibility to credit but also enhanced the direct participation of men in markets.

LESSONS LEARNED AND ISSUES FOR WIDERAPPLICABILITY

Poverty diminution projects are generational speculations and therefore need resource assurances over certain extended periods. Sustained conclusions depend on the integration of investments and capital contribution in social enlistment and mobilization of the poor; engaging in the banking activities for capital formation; to providethem livelihood assistance services; and enables the poor to participate in markets. The smart use of human capital can significantly reduce the cost of organisation building. Using community professionals in social enlistment and capability building is a more feasible, low-cost strategy for structuring strong organisations at the grassroots level (for example, employing women members as some bookkeepers, professionals, bank experts,

⁶Rajan, Raghuram and Luigi Zingales (2003).“*Saving Capitalism from the Capitalists*”: How Open Financial Markets Challenge the Establishment and Spread Prosperity to Rich and Poor Alike.

⁷Fisher, Thomas and Sriram, M. S. (2002) “*BeyondMicro-Credit*”: Putting Development Back into Micro-Finance. New Delhi: Vistar.

financer and social auditors). Using contributions from donor as circling funds in community has strategic advantages. It helps to encourage community ownership of funds from donor, as well as simplicity, caution, and social answerability. The funds encourage more investment in sectors where banks are reluctant to involve; ultimately, a testimony of success attracts conventional lenders and releases funds and capital to assist the next level of improvement and innovation. The reprocess of funds supports increased investment at the household and grassroots level, and expected returns from investments help community organisations to achieve financial sustainability much faster. The present banking system must consider the poor people as co-producers of the financial schemes and services and not just as credit and debt clients. This perspective will make possible the provision of a full series of financial schemes and products at significantly lower cost to commercial banks and the poor people.⁸

WAYS FORWARD

Consolidating the organisational systems for increasing the products, schemes and services offered by federations and their confederations through product innovation has always proved to be a better idea. Several commercial banks have initiated some serious works in this direction in making partnership with the established women's groups as a part of IKP. Developing next-generation and unusual credit relationship models will boost the growth. These partnerships have a better future and could possibly take several forms: for example, the Mandal Samkhyas could play the role of imminent "business correspondents," extending a full variety of savings, debt, credit, and insurance schemes to the poor people on behalf of the commercial banks, or the Village Organisations could act as "business providers and facilitators" to broaden and deepen the contacts of bank finance. Merge the women-run financial institutions under a unique state-level height to form an entire community-owned, conventional financial institution. The head could be promoted in collaboration with NABARD or any other major finance provider, major commercial banks, and several other private players that could facilitate the incorporation of women-run and community-managed rural financial systems with conventional financial markets.

⁸Reserve Bank of India (2004). "Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System". (Vyas Committee). Mumbai: RBI.