

#### SWISS AGENCY FOR DEVELOPMENT AND COOPERATION - SOUTH ASIA DIVISION

Addressing a hundred years of neglect...

Worldwide, the financing of small enterprises and the credit needs of low income families has traditionally been the preserve of relationship networks and informal neighbourhood moneylenders. Large banks find it more convenient to work with a relatively small number of people whose needs exceed, say 5,000 Swiss Francs, rather than with large numbers of low income clients. The small needs of low income families require the same administrative effort as larger loans resulting in higher proportionate expenses for banks.

In Europe, in the late nineteenth century, the promotion of savings and the financing of small clients became increasingly formalised with the natural growth of the cooperative movement rooted in villages and small towns and with a more voluntary ethos and lower cost structure than the banking system. In India, however, cooperative institutions were established as a quasi-official network. These were always inadequately funded and bureaucratically managed and, thus, failed to satisfy the financial needs of all three groups of borrowers excluded by the banking system: small farmers, small entrepreneurs and other low income families in need of secure saving opportunities and consumption or production credit. Thus, even after the establishment of the cooperative system in India in 1904, small savers and borrowers suffered a hundred years of neglect in the twentieth century. A Swiss-funded programme to support small and rural finance, however, made some effort to address this neglect in the last two decades of the century and beyond.

...with a thirty year programme of support

From 1978 until 2009, the Swiss Government, through SDC, supported rural finance in India with the major objective of strengthening *“the existing systems to become more effective in reaching the poor in an institutionally sustainable manner.”*

SDC attempted to fulfil its objectives through four types of activity:

1. Credit and savings services (microfinance) for low income families including very small farmers, known in India as “marginal” farmers
2. Lending to small enterprises
3. Training and orientation of the staff of institutions to strengthen their commitment and ability to work with very small savers and borrowers
4. Advocacy efforts to ensure that regulations make it easier, rather than more difficult, for financial services to be provided to small customers.

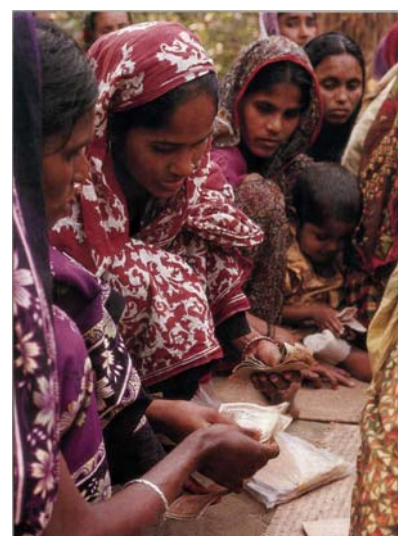
These activities emerged over three major sets of changes in SDC’s thinking – and that of its partners – on rural finance initiatives over the 30-year period

- from supporting farmers alone to including non-farm activities in the early 1980s;
- from purely credit to including savings and livelihood support activities such as skills development and marketing initiatives in the late 1980s; and
- from a pure focus on working with the poor to one that included support to enterprises and institution building from the early 1990s.

For undertaking these activities, SDC worked with selected Indian institutions engaged in the financial sector with whom it shared a common agenda to reduce poverty in India. Key partners in this process were:

1. National Bank of Agriculture and Rural Development (NABARD), the leading promoter of agricultural and rural credit activities. NABARD was the dominant strategic partner in the programme
2. Small Industries Development Bank of India (SIDBI), the major promoter of off-farm activities through the financial system
3. BASIX, a private non-bank finance company dedicated to innovating in the provision of financial and livelihood support services to entrepreneurs and enterprises of the poor
4. Other Non Government Organisation (NGO) partners and advocacy organisations that were able to contribute to the process of innovation and change.

Through its efforts to enable the provision of finance for low income people, SDC was able to stimulate dynamic changes in the rural financial landscape in India. The initiatives described on the following two pages represent innovations that were at the forefront of an economic reform process in favour of the poor.



SDC-NABARD’s main programme stimulating bank lending to self help groups

## Swiss supported initiatives and achievements

The Swiss supported rural finance programme in India evolved along a spectrum from a more conventional credit based approach of supporting smallholder agriculture, through a shift towards promoting the non-farm sector (NFS) to a more entrepreneurial focus on innovation for promoting the livelihoods of low income families.

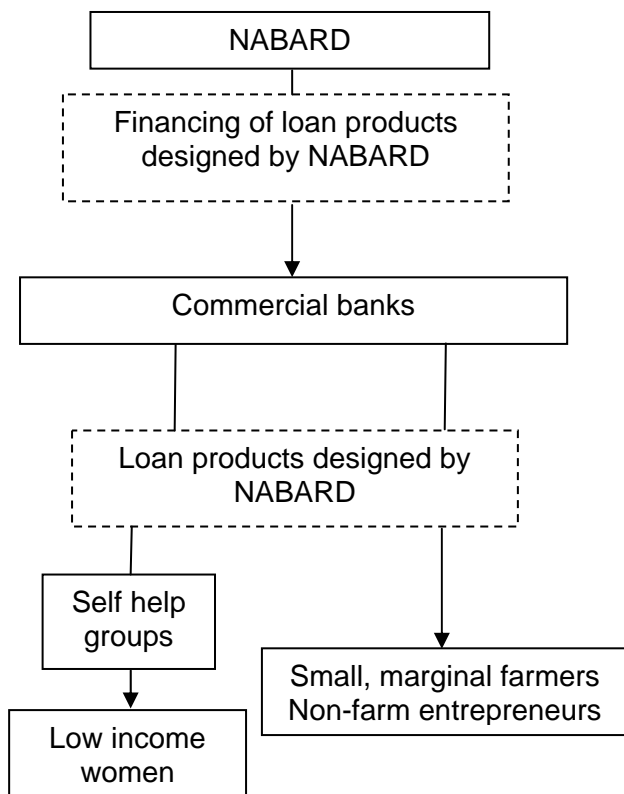


Encouraging the banks to lend to the poor

SDC's main strategic financial sector partner was **NABARD**, the National Bank of Agriculture and Rural Development. NABARD is a wholesale bank with the mandate to promote lending to agriculture and rural development activities. It does not lend directly to retail borrowers. NABARD designs loan products that commercial banks retail to small farmers or to off-farm enterprises. These loans are then re-financed by NABARD if the conditions adhere to its guidelines.

The availability of cheap funds from NABARD encourages commercial banks to use its refinancing facility. NABARD is thereby able to promote particular products or sectors, in this case loans for small farmers and non-farm enterprises (crafts and small enterprises).

### NABARD's role in the financial system



As part of this initiative, NABARD promoted lending by commercial banks to self help groups (SHGs). SHGs consist of groups of 10-15 low income women who come together in villages to pool their savings for lending within the group and to deposit seed money with banks as a basis for bank loans. Loans provided by banks to SHGs are on-lent by the women's groups to their members for investment purposes or to meet consumption needs. The programme grew from a few hundred SHGs linked to banks in this way in the early 1990s to around 3 million SHGs with over 1.5 billion Swiss Francs in outstanding loans by the end of 2007.

Promoting non-farm rural enterprises

Similar to NABARD, **SIDBI** (Small Industries Development Bank of India), promotes lending by commercial banks but to non-farm productive enterprises. SDC support has enabled SIDBI to increase its focus on promoting tiny enterprises in rural areas or small towns operated by 1-5 people. In addition to channelling re-financing to commercial banks, SIDBI has undertaken other initiatives to stimulate such enterprises including

- A programme by consultancy organisations to support such enterprises in applying for loans from banks, and in obtaining other non-financial support to establish or expand operations. This led to the promotion of some 25,000 units and fresh employment of around 100,000 people
- Sponsorship of skills development programmes for enterprise owners or managers in which over 13,000 people were trained in various technical skills related to their production activities
- General management training to some 4,300 owners or managers of small production units to enable them to improve their effectiveness in managing their enterprises
- Providing marketing support to small enterprises through the sponsorship of marketing facilities for individual enterprises or the creation of common marketing facilities such as a Trade Fair Complex at Coimbatore. Now the leading trade fair ground in southern India, the latter has become a focal point for the marketing of products of tiny and small industries in the whole region.



A non-farm micro-enterprise – stitching unit run by a group of women entrepreneurs

## Swiss supported initiatives and achievements

SDC support also made it possible for SIDBI to experiment with its Informal Lending Scheme – a programme for providing wholesale loans of the order of 10,000 to 50,000 Swiss Francs to NGOs to on-lend as microfinance loans to low income families. This programme served as SIDBI's learning laboratory which helped it to design and establish its micro-credit initiative for large scale lending to microfinance institutions (MFIs). This initiative has expanded to lending around 0.5 billion Swiss Francs annually to low income families through MFIs and has encouraged commercial banks also to engage in such lending. The total reach of MFIs in India now extends to around 15 million families receiving loans of 100 to 500 Swiss Francs which usually have to be repaid within a one year period.

From non-farm sector lending to supporting innovative finance for low income families

The programme with SIDBI moved SDC from simply supporting non-farm sector lending to providing support services for small rural enterprises as well. With **BASIX**, a private finance company, the SDC programme moved beyond the stimulation of bank lending and support services into the innovative promotion of financial services in favour of the low income population.



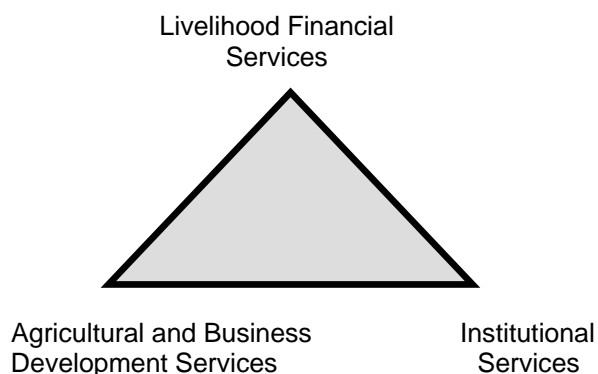
Enterprise promoted through innovative finance: Fruit and vegetable vendor with a Public Call Office

Starting in 1997, SDC's objective in supporting the BASIX group, was to "allow experimentation and the gradual substitution of development by commercial funds". In promoting BASIX as an alternative financial institution, SDC's aim was to push the frontier of formal banking into the informal arena of the rural poor. This is an arena that was hitherto dominated by the rural moneylender and was characterised by (often) exorbitant lending conditions. The partnership was expected to yield experiences in the field of alternative banking that would have national importance as "acceptable and sufficient commercial funds would become available to BASIX when the **idea of profit-making social banking** was seen to be working." The support of SDC (which worked together with the Ford Foundation – a private US-based foundation) would allow BASIX enough scope to demonstrate its viability and build trust with clients and Indian equity financiers.

In 2004, BASIX complemented its strategy with a 'livelihood triad' approach which includes

- a combination of specially designed loan, savings and insurance products for clients such as cotton farmers, spice farmers, village-based retail enterprises, handloom weavers and self-help groups;
- livelihood support to clients through support services for farm activities or businesses – pest control or soil advice, links to alternative market channels, additional local value addition through processing such as the sorting and grading of vegetables before sale etc;
- institutional development services including the formation of self help groups, management support to cooperatives, building collaborations with institutions like dairy processing and vegetable processing companies or agricultural input suppliers to enable a significant number of clients to increase their incomes through these links.

### BASIX Livelihood Triad



Over the years, along with sustainable financial services to more than 350,000 customers, BASIX has provided agriculture and business support to more than 50,000 clients in 10-12 economic sub-sectors while promoting sustainable solutions for these types of services too. BASIX has also promoted about 1,000 common interest groups, 100 SHG federations and 40 NGOs as part of the programme of building the capacity of these groups to support the livelihoods of their members. More recently, BASIX has supported producer organisations of cotton and dairy farmers in developing their service delivery systems and linkages with other organisations.

Other NGO partners and advocacy support organisations

In addition to the collaborations with NABARD, SIDBI and BASIX, SDC supported other NGO and advocacy organisations to carry out experiments with self help groups (e.g. the NGO **MYRADA**) and watershed development (e.g. the NGO **WOTR**) and to work for the improvement of the policy framework in favour of the provision of financial services and livelihood support to low income families.

## Lessons from an entrepreneurial partnership



Agro processing industries creating income and jobs in rural areas

An increasingly entrepreneurial approach...

SDC's approach was increasingly entrepreneurial over the three decades of its promotion of rural finance in India. As the shift took place from conventional subsidised agricultural lending to more innovative livelihood finance, a number of challenges became apparent.

Primary amongst these challenges was a resistance within both SDC and in the philosophical approach of its primary partners NABARD and SIDBI. The conventional approach of all institutions was voluntarist and not easily oriented to market solutions. As a result, crucial aspects, such as marketing, were not addressed for a long time. Even SDC took its time to take a decision on supporting BASIX because the "for-profit" nature of the initiative was deemed to be contrary to the spirit in which SDC's public funds should be used.

...limited partly by a lack of adequate technical expertise...

The lack of manpower resources with expertise in rural finance placed a limit on the activities that SDC could support. This constraint was felt both in the number and variety of institutions SDC could work with, and in the extent to which it could provide intellectual and advisory support to the programmes of its partners.

SDC's response was to work with large partners – NABARD and SIDBI. The collaborations with these government owned institutions resulted in a loss of flexibility and short term efficacy, expected to be compensated by the maximisation of outreach and system's wide effects of the innovations promoted. The SHG movement is an example of such effects.

The choice of BASIX for support in livelihood finance was a strategic decision. SDC provided venture capital as a loan to be repaid to SDC and grant funds for capacity development and the sharing of risks associated with innovations. Support to other programmes was based on similar criteria.

...but a collaborative mode of operation fostering a genuine sense of partnership and sustainability

SDC is seen as a collaborative rather than a dominating donor and this has fostered a genuine sense of partnership. Being a "small" donor contributing only a fraction of the budgets of organisations like NABARD and SIDBI is likely to have facilitated this situation. The results and wider effects of the programmes supported, however, have gone much beyond of what one might expect from the financial contributions, thanks mostly to the relationship capital developed.

SDC chose to follow an independent path from other donors and developed its relationship with NABARD. The relationship was unique in that it was not the usual donor-recipient relationship. SDC was a committed and continuous partner through thirty years. In its relationship with SIDBI and BASIX too, SDC's role as advisor and reliable supporter was well appreciated and provided space for innovation and change with the aim of reaching disadvantaged target groups.

### Conclusion

That some of the successes of the programme were partial rather than complete is inevitable in working with big institutions, such as NABARD and SIDBI, in a country of the size of India. There were failures, inefficiencies and lessons to be learned during this thirty-year journey. However, among all of SDC's partners there is much appreciation of the result of the programme in transforming the provision of financial services to low income families and non-farm enterprises into an economically viable business.

Fact Sheet	India	Switzerland
Population, million	1,180	7.6
Life expectancy at birth, years	62	81
% using improved sanitation	33	100
GDP at PPP (US\$)	3,452	35,633
GDP growth rate 1990-2005, % p.a.	4.2	0.6%
% living on less than \$1 a day	34	-

UN Human Development Report, 2008

### About this Publication

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- Di Leo, Paul, 2003. 'Building a Reliable MFI Funding Base: Donor Flexibility Shows Results.' Case Studies in Donor Good Practices No. 5. [www.cgap.com](http://www.cgap.com)

Photos: Richard Gerster; EDA & BIRD

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