



IMPACT ASSESSMENT OF THE MANN DESHI MAHILA BANK PROJECT

CLIENT-FOCUSSED PRODUCTS THROUGH
THE BC CHANNEL FOR LOW-INCOME
CLIENTS OF SMALL BANKS

Published By



giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

Deutsche Gesellschaft für Internationale
Zusammenarbeit (GIZ) GmbH

Rural Financial Institutions Programme

Contact

Dr. Detlev Holloh, GIZ Programme Director

A-2/18, Safdarjung Enclave
New Delhi 110 029 / INDIA
Phone: +91-11-4949 5353
Telefax: +91-11-4949 5393
Email: detlev.holloh@giz.de
Homepage: www.giz.de

Responsible

Amit Arora

Author

Karuna Krishnaswamy

Editor

Nitin Jindal

Design

Anshul Sharma/Artworkstudios.in

New Delhi, October 2015

IMPACT ASSESSMENT OF THE MANN DESHI MAHILA BANK PROJECT

CLIENT-FOCUSSED PRODUCTS THROUGH THE BC CHANNEL FOR LOW-INCOME CLIENTS OF SMALL BANKS

Acknowledgements

This report draws from a business case analysis report by Sunil Aggarwal (Consultant) and a forthcoming academic paper for client impact, with Alex Karaivanov (Professor, Simon Fraser University). Thanks to Anushree Haldar (Technical Expert, GIZ) for project management, case studies and research assistance and Devika Dutt (Consultant) for research assistance and Amit Arora (Head of BC and payment systems, RFIP, GIZ) for conceiving the project, guiding the study and for review and Mann Deshi Mahila Bank for supporting the evaluation.

TABLE OF CONTENT

Executive Summary	5
1. Introduction.....	9
1.1. Relevance of the Project.....	9
1.2. Objectives of the Project.....	10
1.3. About the Partner	11
2. The Project.....	11
2.1. Technology Interventions.....	11
Project Stakeholders.....	12
2.2. Customised Weekly Market Cash Credit Loan Product.....	12
Preliminary Study	12
The Product.....	13
2.3. Servicing	14
Business Correspondent Agents	14
Sales Cycle	14
3. Progress and Outreach	15
3.1. Technology Interventions.....	15
3.2. The CCL Product.....	16



4. Scope and Methods	16
4.1 Client Impact Study	16
Theory of Change	17
4.2 Business Case Analysis	17
5. Findings.....	18
5.1. Client Impact.....	19
Other findings.....	21
5.2. Business Case	24
Mann Deshi Weekly Market Cash Credit Loan.....	24
Mann Deshi Term Loan	25
Mann Deshi’s BC channel.....	26
6. Concluding discussion.....	26
6.1 Considerations for replicators.....	27

Glossary of Terms

UIDAI	Unique Identification Authority of India
NPCI	National Payments Corporation of India
NEFT	National Electronic Fund Transfer
RTGS	Real-time Gross Settlement
SMS	Short Message Service
IMPS	Immediate Payment Service
RuPay	RuPay is an Indian domestic card scheme conceived and launched by the National Payments Corporation of India (NPCI) created to fulfil the Reserve Bank of India's desire to have a domestic, open loop, and multilateral system of payments in India.
UID	Unique ID

Executive Summary

The Rural Financial Institutions Programme (RFIP) is a bilateral cooperation programme, jointly implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, on behalf of the Government of the Federal Republic of Germany; and the National Bank for Agriculture and Rural Development (NABARD), on behalf of the Government of India. It aims at improving access to sustainable and demand-oriented financial services through the institutions of the rural cooperative credit system, Self-help Groups, and banks and their Business Correspondents (BCs).

The RFIP strengthens the capacity of banks to service their rural customers through the use of Business Correspondents or Bank Agents. One such project, with Mann Deshi Mahila Bank (henceforth referred to as Mann Deshi), aims to offer improved client-focussed products and services to the clients of cooperative banks.

This report presents the findings of a study of the suite of interventions with Mann Deshi, conducted between December 2014 and August 2015.

Rationale

The project was motivated by four factors:

1. A large number of micro-businesses rely on expensive informal credit to finance working capital at interest rates ranging from one to ten per cent per day.
2. While there is widespread use of BCs by banks to service low-income households, the lack of financial viability and high amount of inactivity of this channel have proved to be challenging.
3. Although micro-credit has been perceived as an effective tool to reduce poverty, in reality, its impact has been modest. The reason could be that most loans extended to the poor are term loans, which are not well-suited either for borrowers with a variable or unpredictable income stream, traders with a need for a constant amount of working capital for purchasing inventory, or for farmers who earn a lump sum income after harvest.

4. In recent years, financial inclusion policies in India have encouraged overdraft facilities. The Reserve Bank of India has recommended that Basic Savings Bank Deposit Accounts (BSBDA, the former no-frills account for financial inclusion) should be accompanied by overdraft facilities, and that the loans to Self-help Groups should be in the form of overdraft facilities (rather than term loans). The Pradhan Mantri Jan-Dhan Yojana (PMJDY), an ambitious financial inclusion mission, recommends that banks opening financial inclusion accounts should offer an overdraft facility up to INR 5,000, subject to certain levels of account usage by the customer and other prerequisites. However, the penetration of overdraft-based credit among low-income clients remains low. For instance, as of March 2014, only 59 lakh out of the 24.3 crore BSBDA account holders had availed of an overdraft facility¹. These figures only improved to 76 lakh and 39.81 crore respectively by March 2015².

This is attributed to various reasons by banks such as:

- o High costs of servicing such low value overdraft limits with increased frequency of transactions leading to further increased transactional costs.
- o Challenges faced by the BC agents to channelize such credit-based services responsibly through the BC channel and difficulty in managing the portfolio risk associated with such customer base.
- o Complexity of integrating multiple applications or enhanced application features capable of serving a credit portfolio through Micro-ATMs.
- o Challenges faced by BC agents and Bank's technology solutions in reaching owners of micro-enterprises at both regular and non-banking hours so as to suit their business cycle and time availability.
- o Challenges faced to provide service at interest rates that can make the channel a profitable venture and affordable by customers.

¹ RBI Annual Report 2013-14

² RBI Annual Report 2014-15

The Project

In light of such limitations, the RFIP sought to explore if suitable answers could be found to any of these problems. It hence forged a partnership with Mann Deshi which was interested in serving low-value customers at their doorsteps and providing an overdraft facility through their BC channel with flexible timings.

The cooperation project between the RFIP and Mann Deshi commenced in July 2013 and focussed on two key areas: product innovation and offering new technology-enabled services, as elucidated below:

- o Test the suitability and preference for an innovative cash credit facility compared to a term loan, both by the bank and its customers.
- o Roll out these services through the BC channel in a real-time, online manner using technologies like cards, mobile wallets, and biometrics-based authentication so as to mitigate operational risks, improve control and scale-up the project.

Gradually, as the project implementation crosses milestones and gains experience, this pilot is intended to serve as a reference point for hundreds of such small cooperative banks and emerging small finance banks to leverage this learning and devise suitable strategies for replication. The RFIP intends to document this process for sharing with other sector stakeholders.

Product Innovation

The project sought to test-pilot an overdraft facility and servicing it through individual BC agents. The objective was to demonstrate that products customised to the needs of micro-entrepreneurs with unpredictable income streams and capital needs can add value to the client, while being profitably serviced by a bank. The project started with a financial diaries study of market vendors to understand the cash-flows and needs of the customers to inform the design of the product.

Accordingly, Mann Deshi designed and launched an innovative Weekly Market Cash Credit Loan (henceforth referred to as CCL or CL Loan) product offered through the BC channel, which is an overdraft facility for vendors and farmers selling goods like vegetables, fruits, confectionery and groceries in weekly markets of Satara and Mhaswad districts in rural Maharashtra. As of October 2015, 1,376 CCLs had been disbursed, each with a limit of up to INR 20,000 all to women, with a total outstanding loan amount of INR 192 lakh. These accounts were serviced by 24 BC agents called Field Service Agents (FSA), covering nine markets.

New Technology-Enabled Services

The technology interventions supported by the RFIP were to (i) enable the bank to offer RuPay-based cards to its customers (so that they may use the cards for payments at other facilities); (ii) link the cards to the customers' Aadhaar account (to facilitate receipt of government transfer payments); (iii) provide RTGS/NEFT and IMPS-based money transfer services to its customers; (iv) link the Point-of-Service (PoS) device of its BC agents to its Core Banking System (to offer the facility of anywhere-banking to its customers); and (v) send SMS alerts for transactions. BC agents would use the micro-ATM/ POS devices as mandated by the UIDAI/NPCI; and offer Aadhaar UID-based, as well as RuPay debit card-based, transaction services to customers.

In terms of technology innovations, the bank has, till date:

- o Successfully completed over 500 RTGS/NEFT transactions (at a monthly average of 60 transactions per month at one branch), as on June 2015.
- o Launched RuPay Cards in October 2015.
- o Offered BC banking services for cash deposits through its network of over 240 agents. Every agent completes about 100 deposit transactions a day. Currently this is done in offline mode and the bank is expected to go live on-line by November 2015.
- o SMS-based information services.
- o Aadhar seeding of customer accounts.

Scope and Method

The study sought to find out

- o If clients were better off availing of an overdraft facility or a term loan
- o If the product and the BC channel were profitable for the bank

For measuring client impact, a Randomised Controlled Trial approach was used. A total of 360 market vendors formed groups of three to apply for individual loans. The group members acted as guarantors, in case of default by a colleague in the same group. Approved applicants were randomly offered a term loan (TL) or CCL (of the same amount of INR 20,000). All applicants who were offered a loan, accepted it. We administered a baseline survey and two rounds of financial diaries before the loan was disbursed. After disbursement, at least 12

financial diaries were collected every fortnight and an end-line survey was administered in July 2015 for a total of 5,000+ data points which were analysed using econometric techniques.

For assessing profitability, an analysis of the balance sheets of the bank for the year 2014-15 was done.

Findings

Client Impact

The outcomes between customers who availed of the CCL were compared with those who had received a TL. While most indicators improved for both groups after the intervention (as compared to before the intervention), customers using the CCL were significantly better off six months later than those who had taken a term loan.

Average sales for the day was INR723 (20 per cent) higher in the CCL group compared to the TL group. The main reason for higher sales is that CCL clients have switched to selling new and more profitable goods (31 per cent).

One measure of profits per day, (Sales) - (Cost of stock) + (Cost of unsold non-perishable stock) increased by INR 1,305, an improvement of 80 per cent in the CCL group. During the end-line survey, 31 per cent of CCL clients reported a large increase in profits (as compared to only two per cent of TL clients). The main reasons were increase in sale price as the goods were of better quality, increase in sale price as the goods were more profitable, decrease in cost price, and lower interest payments.

Total business expenses per day on travel, rent, loan repayments etc., but not including stock purchase, was higher by INR 385 (40%) in the CCL group.

Personal consumption of the vendor at the market that day (including purchases for herself and family, and cash transfers to other family members) increased by INR 30 (16%) in the CCL group.

Business Case

The outlook for Mann Deshi's BC channel as well as the CCL portfolio is positive.

Mann Deshi offers both TL and CCL through its BC channel. The BC channel portfolio size in 2014-15 was INR 9.33 crore. The portfolio returned profits of INR 51 lakh or 5.5 per cent. Being a more mature product, Term Loans accounted for INR 8.77 crore, 15 times more than CCL which had loans outstanding of INR 56.5 lakh. The TL portfolio's profit margin was 7.15 per cent.

The CCL portfolio is in its early days. Its first completed year of operations was 2014-15. In this year, the CCL portfolio grew 1,192 per cent from INR 10.7 lakh to INR 1.38 crore. The bank deployed seven FSAs, five Loan Officers and one Monitoring Officer to achieve

this growth. The expenses towards development and management for achieving this growth was 35.5 per cent of the loan outstanding for the year. The bank incurred a net loss of INR 11.6 lakh which is equal to 20.7 per cent of the average portfolio for the year of INR 56.3 lakh.

For breaking even, the CCL portfolio size needs to grow to INR 1.80 crore in the year 2015-16, a growth of 30 per cent over the amount as on March 2015. This looks to be achievable for the following reasons:

- The portfolio grew by 60 per cent in the last quarter of 2014-15, and the bank has a better volume of business at the start of this year.
- The current team of FSAs and Loan Officers has been handling a portfolio of INR 1.38 crore last year, and the rate of growth of these expenses is likely to be much lower in the current year.

However, the bank has changed the commission structure of its BC agents from a variable performance-dependent fee structure to a flat salary in 2015, which may impact their productivity. The CCL portfolio has had no delinquencies or agent attrition so far. The customer demand for the CCL product is strong.

All things considered, the CCL portfolio is expected to be profitable in its second completed year of operations.

Concluding discussion

The study found that small businesses are significantly better off using an overdraft facility, rather than a term loan of the same amount, in terms of higher sales, business investments, profits and consumption. Perhaps, the high expectations the development community has had from micro-credit could have been met if the products offered were custom designed and went beyond term loans.

The bank's overall BC channel is profitable. As far as the CCL portfolio is concerned, while there may be new challenges for the bank to expand its customer base and sustain its growth and performance, and while the future repayment rates at the end of the CCL tenure is unknown, we expect that for a small bank, looking for a moderate portfolio, the business case appears to be sound. Thus, it can be concluded that it is possible for a bank to design customised loan products for low-income households and deliver them through individual Business Correspondents in a viable manner.

In response to high demand from customers, Mann Deshi plans to offer the CCL product to all traders and daily earners, who run a business. In terms of technology interventions, Mann Deshi has drawn up an ambitious plan of scaling-up the services offered to its customers.

1. Introduction

The Rural Financial Institutions Programme (RFIP) is a bilateral cooperation programme, jointly implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (on behalf of the Government of the Federal Republic of Germany) and the National Bank for Agriculture and Rural Development (NABARD), on behalf of the Government of India. It aims at improving access to sustainable and demand-oriented financial services through the institutions of the rural cooperative credit system, Self-help Groups and banks, and their Business Correspondents (BCs).

The RFIP strengthens the capacity of banks to service rural customers through the use of BCs or Bank Agents. One such project, in partnership with Mann Deshi Mahila Bank (henceforth referred to as Mann Deshi) aims to offer improved client-focussed products and services to the clients of cooperative banks. The project started with a financial diaries study of market vendors to understand the cash-flows and needs of the customers to inform the design of the product. From 2013 to 2015, Mann Deshi and the RFIP partnered to design a customised overdraft facility, called the Weekly Market Cash Credit product, (henceforth referred to as the Cash Credit product or CCL) to service micro-entrepreneurs in Satara and Mhaswad district of rural Maharashtra through individual BCs. The RFIP also supported Mann Deshi in a suite of technology interventions to enhance the services it offers through its BCs, mainly with the objective of reducing operational risks, providing real time services with flexible timings and providing standard, scalable solution for replication purposes. It is also expected that over time with the introduction of such services, the bank would be able to reduce unit costs, and earn revenue by offering services to customers and non-customers (remittances and interchange fees through the PoS device).

This report presents the findings of a study of this project (conducted between December 2014 and August 2015) on the client value and business case to the bank.

This report is organized as follows: Section 1 describes the relevance of the project to India's financial inclusion agenda; Section 2 describes the project and the

interventions; Section 3 presents the project's outreach and accomplishments; Section 4 describes the study methodology and scope; Section 5 presents the findings of the study; Section 6 concludes.

1.1. Project rationale

Moneylenders: It is estimated that 30,000 urban and rural weekly markets operate in India³. In these markets, retailers sell both food and non-food products. These retailers are either traders, who purchase products from wholesalers, or farmers or producers who grow or make their own stock. It is well-known that a sizeable number of the retailers finance their working capital through debt, either by taking short-term loans from moneylenders, or by purchasing stock from wholesalers on credit (at interest rates as high as between one and ten per cent per day). A sizeable fraction of the profits the retailers make by selling their goods goes towards servicing this debt. Despite the high interest rates they currently pay — and hence, the potential business opportunity — neither banks nor other financial service providers have made significant inroads into servicing this market.

Lack of impact of microcredit: A few years ago, microcredit was viewed as an effective tool to reduce poverty. Some impact assessments of micro term-loans have found an increase in business investment or profits, or reduction in household labour; but no impact on overall consumption. The impact of these evaluations has been less than what was expected. This could well be a result of microfinance terms being not designed based on the needs of the target customer base.⁴

Most loans provided to rural low-income households in India are term loans, wherein repayments commence shortly after loan disbursement, in the form of fixed instalments whose frequency ranges from weekly to monthly. These terms are not ideal for borrowers with variable (or unpredictable) income streams, traders who require a constant amount of working capital for purchasing inventory, or for farmers who earn a lump sum income after harvest.

³ Report Of The Working Group On Agricultural Marketing Infrastructure, Secondary Agriculture And Policy Required For Internal And External Trade. December 2011. For The Xii Five Year Plan 2012-17, Agriculture Division, Planning Commission, Government of India

⁴ Mullainathan, S., and Karlan, D. (2007). *Is Microfinance Too Rigid?* Mimeo

Alignment with policy: In recent years, financial inclusion policies in India have encouraged overdraft facilities. The Reserve Bank of India has recommended that Basic Savings Bank Deposit Accounts (BSBDA, the former no-frills account for financial inclusion) should be accompanied by overdraft facilities, and that the loans to Self-help Groups should be in the form of overdraft facilities (rather than term loans). The Pradhan Mantri Jan-Dhan Yojana (PMJDY), an ambitious financial inclusion mission, recommends that banks opening financial inclusion accounts should offer an overdraft facility up to INR 5,000, subject to certain levels of account usage by the customer and other prerequisites. However, the penetration of overdraft-based credit among low-income clients remains low. For instance, as of March 2014, only 59 lakh out of the 24.3 crore BSBDA account holders had availed of an overdraft facility.⁵ These figures only improved to 7.6 million and 398.1 million respectively by March 2015⁶.

This is attributed to various reasons by banks such as:

- o High costs of servicing such low value overdraft limits with increased frequency of transactions leading to further increased transactional costs.
- o Challenges faced by the BC agents to channelize such credit-based services responsibly through the BC channel and difficulty in managing the portfolio risk associated with such customer base.
- o Complexity of integrating multiple applications or enhanced application features capable of serving a credit portfolio through Micro ATMs.
- o Challenges faced by BC agents' and bank's technology solutions to reach owners of micro-enterprises at both regular and non-banking hours to suit their business cycle and time availability.
- o Challenges faced to provide service at interest rates that can make the channel a profitable venture and still be affordable by customers.

Business case of banks: Despite encouragement from the regulators and the government, it has been a challenge for banks to develop the BC channel in a sustainable manner, in part because the emphasis is on savings products and they do not offer a range of profitable products such as credit.

⁵ RBI Annual Report 2013–14

⁶ RBI Annual Report 2014-15

1.2. Objectives of the project

In light of such limitations, the RFIP sought to explore if suitable answers could be found to any of these problems. It hence forged a partnership with Mann Deshi which was interested in serving low-value customers at their doorsteps and providing an overdraft facility through their BC channel with flexible timings.

The project had the following objectives:

- a. To design and implement a customised product that suits the needs of specific micro-businesses; and service them through the use of the bank's individual BCs.
- b. Roll out these services through the BC channel in a real-time, online manner using technologies like cards and biometrics-based authentication so as to mitigate operational risks, improve control and scale-up the project.
- c. To implement technology in the bank, so that it could offer services at par with those of a commercial bank.
- d. To demonstrate that the Cash Credit product improves client value.
- e. To demonstrate the business case for the technology intervention, and for delivering an overdraft facility through individual BCs.

Gradually, as the project implementation crosses milestones and gains experience, this pilot is intended to serve as a reference point for hundreds of such small cooperative banks to leverage this learning and devise suitable strategies for replication. The RFIP intends to document this process for sharing with other sector stakeholders.

1.3. About the partner

Mann Deshi is a regulated urban Cooperative Bank run by women for women. Founded in 1997, it was the first women's Cooperative Bank to receive a banking license from the RBI. It operates in Satara and neighbouring districts in Maharashtra, which are perennially prone to drought. The bank offers micro-finance products to women entrepreneurs, because for most parts of the year, the adult males of the region migrate to urban locations in search of employment. The bank's initiatives of offering technology-based payment solutions are designed, inter alia, to help their customers receive inward remittances more conveniently.

2. The Project

2.1. Technology interventions

The technology interventions supported by the RFIP were to (i) enable the bank to offer RuPay-based cards to its customers (so that they may use the cards for payments at other facilities); (ii) link the cards to the customers' Aadhaar account (to facilitate receipt of government transfer payments); (iii) provide RTGS/NEFT and IMPS-based money transfer services to its customers; (iv) link the Point-of-Service (PoS) device of its BCs to its Core Banking System (to offer the facility of anywhere banking to its customers); and (v) send SMS alerts for transactions. BC agents would use the micro-ATM/PoS devices as per UIDAI/NPCI standards; and offer Aadhaar UID-based — as well as RuPay debit card-based — transaction services to customers.

Mann Deshi would offer RuPay debit cards, RTGS/NEFT and IMPS services through YES Bank (its sponsor bank), which conducts the interbank settlements with RBI on behalf of Mann Deshi. Mann Deshi is also upgrading its BC banking solution from offline mode to online, so that its BC agents, aided by micro-ATM/POS devices, can connect to the Core Banking System in real time. The bank has also opted for an ASP-model technology platform for BC-based banking, SMS alerts, cards issuance, and the IMPS switch. RTGS/NEFT facilities help in providing remittance service to customers. These solutions integrate with the Core Banking System and the National Financial Switch (the largest network of shared ATMs in the country) run by the National Payments Corporation of India (NPCI).

Project stakeholders

- o NIIT Technologies Ltd. and DataVision: Technology partners providing hosted CBS service and SMS alerts
- o Sarvatra Technologies: Providing the hosted cards-switching solution to enable RuPay cards and backup IMPS switch
- o MPower/Oxigen: Providing the Authentication User Agency (AUA) service, IMPS transaction platform and switching services plus m-Wallet option
- o Bartronics India Ltd: Providing the financial inclusion server solution, Micro-ATMs with application

- o YES Bank: The sponsor bank, responsible for managing settlements related to RTGS/NEFT, IMPS, and RuPay debit card-based transactions.

2.2. Customised Weekly Market Cash Credit Loan Product

A new product, called 'Mann Deshi Weekly Market Cash Credit' (CCL) was custom designed for the vendors in markets.

Preliminary Study

Mann Deshi observed that the weekly markets in their area of operations are vibrant with business activity of vendors, both farmers and traders, who have scant use of formal financial services.

To understand the markets, and to inform the product design, a preliminary study was conducted in 2013. It involved collecting data on vendors in markets in four towns - Dahiwali, Piliv, Mhaswad and Gondavale - using a short questionnaire, the so-called "financial diary" by the Mann Deshi staff. Each town has one big weekly market attended by up to 500 vendors, and smaller daily markets. 134 arbitrarily randomly selected vendors were interviewed every week at the weekly market for a year, giving us 3,689 data points. High frequency of data collection provides us with insights into variations in financial parameters over the course of a year that a single cross-sectional survey would fail to capture.

The vendors were of three types: (i) traders from neighbouring villages, who bought goods from the wholesaler to resell; (ii) farmers, who sell their own produce; and (iii) vendors who prepared food items. Of the vendors, 77 per cent sold vegetables or fruits, 8 per cent sold sweets, while the remainder sold food, spices, confectionary, clothing, or other items.

The key findings of the study were:

- The vendors operating in these markets frequently purchased goods on credit from wholesalers, who charged daily interest rates of up to 1.4%. Moreover, since those who purchased on credit had less bargaining power than those who purchased with cash, the former would often be sold poor quality goods by the wholesaler



- Working capital needs were modest, but varied considerably
 - o The sales lifecycle (from purchase to sales) might last for only a week, but the need for working capital is perpetual
 - o The amounts of vendors' working capital vary over time, in an unpredictable manner. While the average total stock per day was valued at INR 5,000, it varied from INR 0 to INR 100,000.
- Credit purchases are common, but not continuous
- There are risks involved in sales and liquidity
 - o Sales and profits vary dramatically over time. Vendors have good days and bad.
 - o Sometimes, the entire capital was lost, partly due to the perishable nature of the goods. They need time to recover this amount from their high profit days.
- The profit margins are high.
- Over time, sales, profits, working capital needs, and stock vary substantially for a given person, as well as for aggregated averages for the entire sample
 - o Simple average over time, or a one-time cross-

sectional survey data collection, would provide a misleading picture of the vendors' financial needs.

The study suggested that the bank's existing term-loan product would not be suitable for the retailers. This was due to the variability in sales and income, the risk inherent in trading in perishable goods, and the fact that a cash credit product would suit better their cash flows, needs, and type of risks faced.

Based on the characteristics of the clients studied, Mann Deshi launched a cash credit product for the sellers at the weekly markets in towns it operates in. The product was designed to replace the high-cost debt from the wholesalers with a lower-cost option, and to help the businesses of these credit-constrained entrepreneurs grow. The salient features of the product are presented in Table 2.2.1.

The Product

The Mann Deshi Cash Credit product is available to Joint Liability Groups (each group comprising three women who are not related in any way to one another), who conduct businesses in the same market, and have a minimum of two years of experience in working as retailers. Every member is required to be willing to act as

Table 2.2.1: The Weekly Market Cash Credit Product

Features	
Eligibility Criteria	<ul style="list-style-type: none"> - Age between 21 and 59 years - Females only - Runs a business in the local weekly market - Has been a regular retailer in the market for the past three months - Business is not seasonal, but is conducted throughout the year
Guarantor/Joint Liability Group (JLG)	Each group has three members, who operate in the same market, but are not related to one another in any manner. Each member is required to act as guarantor for the other two, and guarantees to repay at least the interest component of the loan of the other two members, in case of default.
Required Documents	Photo ID (Voter ID, Aadhaar Card, PAN Card, Bank Pass Book) Address Proof (Voter ID, Aadhaar Card, Bank Pass Book, Electricity Bill, House Tax Receipt) Relationship Proof (Ration Card)
Credit Limit	INR 10,000 initially, increased to INR 20,000 upon regular repayment
Loan Tenure	Three years
Interest Rate	24% per annum on reducing balance on outstanding amount
Other Mandatory Upfront Charges	Refundable <ul style="list-style-type: none"> - One time contribution to Share Capital: INR 500 Non-refundable <ul style="list-style-type: none"> - One time Share Registration: INR 50 - Nominal member fee per loan for male co-borrower: INR 100 - Premium for Life Insurance per loan for borrower and husband: INR 188
Repayment Terms	Required repayment: Accrued interest every week Recommended repayment: At least 10% of the loan amount
Location	Collection of documents, disbursement, repayments, and withdrawals take place largely in the weekly market that is pre-decided upon. The client also has the option to withdraw or deposit at the bank during working hours.

a guarantor for the repayment of loans by the two other members of the group. To prevent over-indebtedness, Mann Deshi also conducts a credit bureau check and a cash-flow analysis; and the product is only offered to those borrowers with a demonstrated ability to repay their loans.

The drawing limit of the Cash Credit loans ranges from INR 10,000 to INR 20,000, at an interest rate of 24 percent per annum. The loan amount is transferred to the borrower's Cash Credit account, from which withdrawals up to the limit can be made at any time. Mann Deshi advises its customers to make weekly payments that amount to at least 10 percent of the total drawing power, and at least INR 5 per INR 1,000 of the outstanding loan amount as interest. However, the customer is free to make withdrawals at any point up to the maximum limit available.

2.3. Servicing

Business Correspondent Agents

Mann Deshi services the Cash Credit product through

individual Business Correspondents, who are also known as Field Service Agents (FSAs). These FSAs also include former full-time salaried employees of Mann Deshi, who worked on other credit products. However, in this new position, their work was originally purely commission based. The commission rate is 20 per cent of the interest revenue they bring to the bank based on the outstanding loan balance, or 4.8% of their loan portfolio. This arrangement has subsequently been changed by Mann Deshi to a combination of a flat fee plus variable compensation (described later in this report, in Table 5.2.2) to place a cap on the FSA's maximum earnable income.

Every FSA is assigned three-to-four weekly markets. Every branch has 4–5 FSAs, who are supervised by a Loan Officer. Loan Officers, in turn, are supervised and monitored by a Monitoring Officer from the Head Office.

Sales Cycle

Origination: While launching the product in a new market, FSAs closely observe the market and the vendors over a period of time. Thereafter, they approach and offer loans to those vendors, who regularly operate in the market. Once the first set of loans are disbursed, other vendors

in the market approach the FSAs, after coming to know about the loans through word-of-mouth. The FSAs divide the clients into groups of three, collect their details, and explain the details of the product to them.

Loan approval: If the group fulfils all the criteria and understands the product details, a loan application is filed. A branch official pays a visit to the applicant for verification. Then, the file with the loan application is sent to the Branch Loan Committee (BLC) for approval. If the loan is sanctioned, the group is called for loan agreement documentation. Disbursement takes place in the pre-decided weekly market, where the loan application was generated and in which all the three guarantors operate. An hour-long financial education training programme is conducted before the loan is taken.

Transactions: Clients can make transactions either with the designated FSA at the market, or at the bank on any working day during working hours. Currently, collections and withdrawals are authenticated via fingerprinting, using an off-line PoS device. Records of all transaction details are maintained in the client's passbook. Repayments and fresh drawings take place largely in the same market, where the loan originated from.

Once real-time connection from the PoS device to the Core Banking System is enabled, the bank will allow transactions with any FSA in any market where Mann Deshi operates in, thereby enabling multiple transaction locations for those clients who operate in multiple markets.

3. Progress and Outreach

3.1. Technology Interventions

Till date, the bank has:

- o Successfully completed over 500 RTGS/NEFT transactions (at a monthly average of 60 transactions per month at one branch) since June 2015.

- o Offered BC banking services for cash deposits through its network of 120+ agents. Every agent completes about 100 deposit transactions during a day, but the service is offline and not connected to the bank's Core Banking System.

- o Launched SMS-based information services.

- o Launched RuPay Cards in October 2015.

- o Launched Aadhaar seeding of customer accounts.

In the next one year, it plans to:

- o Issue 5,000 RuPay debit cards in an initial phase; and eventually roll the cards out to all retail customers.

- o Offer RTGS/NEFT service at all its branches.

- o Deploy 250 micro-ATM/POS devices for its BC agents to offer real-time banking services to customers.

- o Allow customers to perform Aadhaar-based transactions through BC agents.

- o Roll out IMPS services in assisted mode, through BC agents and branch kiosks.

- o Launch mobile wallet in partnership with Oxigen.

3.2. The CCL Product

Mann Deshi started piloting the Cash Credit Loan (CCL) product in July 2013 in Satara and Mhaswad in rural Maharashtra. As of October 2015, 1,376 CCLs have been disbursed — all to women — with a total outstanding loan amount of INR 192 lakh. These accounts are serviced by 24 FSAs, covering nine markets.

Challenges to speed of expansion include the bank's mandate of only lending to women. Also, to mitigate repayment risks, the bank has adopted a policy of not lending to too many clients in one market.

Table 3.2.1: Outreach of the CCL Product as on July 2015

Branch name	No. of markets served	No. of FSAs	No. of CC loans	Outstanding, as on July 2015
(INR million)				
Dahiwali	1	2	151	2.3
Gondavale	1	1	66	0.9
Lonand	2	7	303	3.9
Mhaswad	1	4	174	2.3
Satara	3	7	300	4.0
Vaduj	1	3	223	3.2
Total	9	24	1,217	16.6

4. Scope and Methods

Two studies were conducted to assess the impact of the product offering on the clients; and to ascertain whether there was a business case for the bank.

4.1 Client Impact Study

It was conducted between November 2014 and August 2015, using a Randomised Controlled Trial (RCT) approach, to find out:

- a. What are the benefits to the client in using the CCL product, as compared to a term loan (TL)?
- b. What is the impact on their business, borrowing habits, and welfare?

Of the customers from 15 markets who had applied for a loan with Mann Deshi, we selected 120 groups of three who had been approved. About half of them (59 groups, or 177 customers) were randomly assigned to receive a CCL, while the other half received a TL. A baseline survey was administered. Two pre-treatment financial diaries and at least 12 post-treatment financial diaries, as well as an end-line survey were administered to measure the outcomes of interest. Over 5,000 observations were analysed in total. Outcomes of interest between the two groups were compared to measure the impact of availing of a CCL over a TL.

Theory of Change

It was hypothesised that the CCL group would benefit more than the TL group in two ways. First, they would have access to almost the entire loan principal at any time, which they can then put to use as working capital (as encouraged by Mann Deshi). This would improve their ability to buy (or produce) more goods for sale, whenever the demand is higher. Second, CCL would allow them the facility to withdraw only when they need the cash, and repay any amount when they have a surplus. Consequently, the interest paid would be lesser than that paid by the TL group. Thus, the stock, sales,

gross profits, and hence consumption were expected to be higher in the case of the CCL group vis-à-vis those of the TL group.

4.2 Business Case Analysis

The business case analysis was conducted to answer the following questions:

- a. Was the BC channel profitable to the bank?
- b. Was this CCL product profitable to the bank? How does it compare to its term loan portfolio?

The methodology adopted for assessment of profitability was as follows. Actual financial position of both the schemes (CCL and TL) as on 31st March, 2015 (provided in the audited balance sheet), supported by information from the bank regarding its month-end balances; number of FSAs/Loan Officers/Monitoring Officers, remuneration paid, etc., were considered for computation of profit/loss. All items of income and expenses were indicated in absolute value, as well as in percentage terms.

Calculation of Income

- o Average balances during the year in the CCL portfolios were used to compute interest income. The interest income on CCL portfolios was 24 per cent.
- o Other income was computed based on the number of clients at the end of the year, and the quarterly non-refundable fee charged by the bank from each client.

Calculation of Costs

Key costs involved were the interest paid on deposits, negative carrying cost of CRR/SLR⁷ obligation, commission/salary paid to FSAs and other staff members, administrative costs, and depreciation of the PoS machines. These were computed as:

- o Average of all deposits taken by the bank (fixed deposit, society deposit, and savings deposit) during the year.

⁷ Cash Reserve Ratio/Statutory Liquidity Ratio

The amount of interest paid on total deposits for the year was obtained from the Profit & Loss Account Statement. The interest on deposits paid to branches (transfer price) was deducted to arrive at the net average interest rate paid on deposits

- o This average interest rate on deposits was applied on the loan portfolios to arrive at the cost of funds for lending
- o The bank is required to maintain 4 per cent of the total deposits as CRR, on which it does not earn any income. The negative carrying cost on this amount was calculated as the average interest rate on deposits. Moreover, the bank is required to invest at least 21.5 per cent of the total deposits in SLR securities. During the year, the bank earned 7.17 per cent on these SLR securities. The net negative carrying cost was worked out by reducing 7.17 per cent from the average interest rate on deposits. To compute the total cost, the negative carrying costs of CRR and SLR were applied to the average cash credit and loan portfolios of the two schemes

o Non-Performing Asset was found to be zero. Hence, only 0.25 per cent of the loan portfolio was considered as cost (in accordance with the prevailing regulatory guidelines for NPA provisions for standard assets)

o The amount of commission/salary paid to the FSAs, Loan Officers/HO staff, and other expenses; as well as the cost and number of PoS machines were provided by the bank. The depreciation rate on these machines was set at 33.33 per cent. Administrative expenses were set off against the amount collected from the clients as "other income".

Computation of Profit/Loss

o The total cost (as computed above) was deducted from the total income (interest + other income) to arrive at the profit/loss under each scheme.

5. Findings

The clients were all women running small businesses for about 10 years. Of them, 75 per cent were traders, 11 per cent were farmers, while 14 per cent were both. Forty-three per cent of the clients were sellers of perishables goods (vegetables, fruits, flowers, meat), 27 per cent sold non-perishables, while the rest were miscellaneous. Eighty-two per cent of their stock remained unsold at the end of the day. Prior to the intervention, the average sale per day was of INR 3,001; the average business expenditure was INR 389. Most of the clients reported that over the years, their profits and sales have grown. In terms of personal characteristics, the group was better off than the average microfinance client. The self-reported (hence, likely inaccurate) monthly household income was INR 22,000. Eighty-one per cent of the clients could read and write in Hindi or Marathi; 44 per cent had gone to a high school (or had higher education). Only 19 per cent belonged to the SC/ST communities. As much as 95 per cent had a savings account that they were using regularly. However, their options for financing their working capital were sparse. Only five per cent had availed of a bank loan, 13 per cent were using informal sources for borrowing (although not regularly), eight per cent had borrowed from another Micro Financial Institution, while the rest used no financing options.

5.1. Client Impact

Most of the indicators of interest increased from before to after the intervention. However, the CCL group is better off in many ways.



Sales for the day was INR 723 (20 per cent) higher in the CCL group compared to the TL group. The main reason for higher sales (see Figure 5.1.1) is that since they have switched to selling new and more profitable goods (31 per cent). This likely explains why we do not see a significant increase in total stock purchased for sale for the day in the CCL group compared to the TL group. There were other changes to their businesses (see Figure

Figure 5.1.1: Reasons for increase in stock for sale - Percentage of respondents

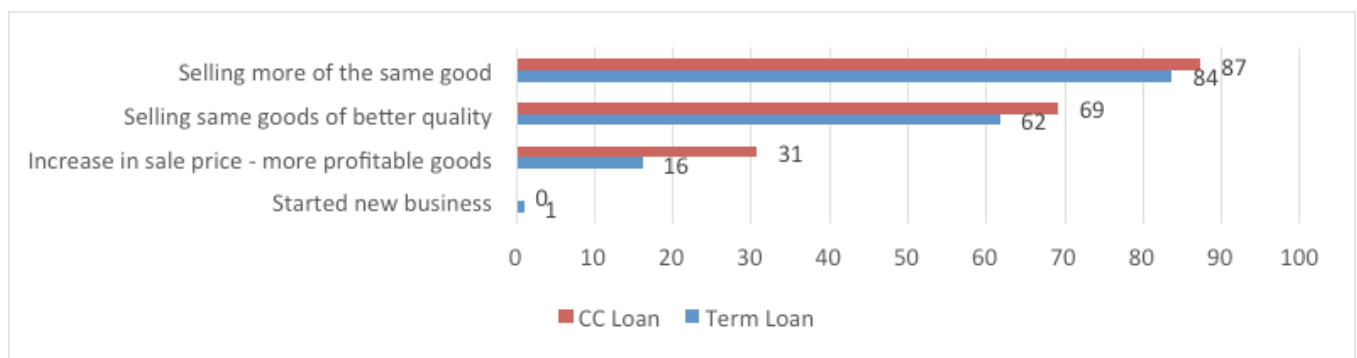


Figure 5.1.1: Percentage of respondents who made changes to business after Mann Deshi Loan

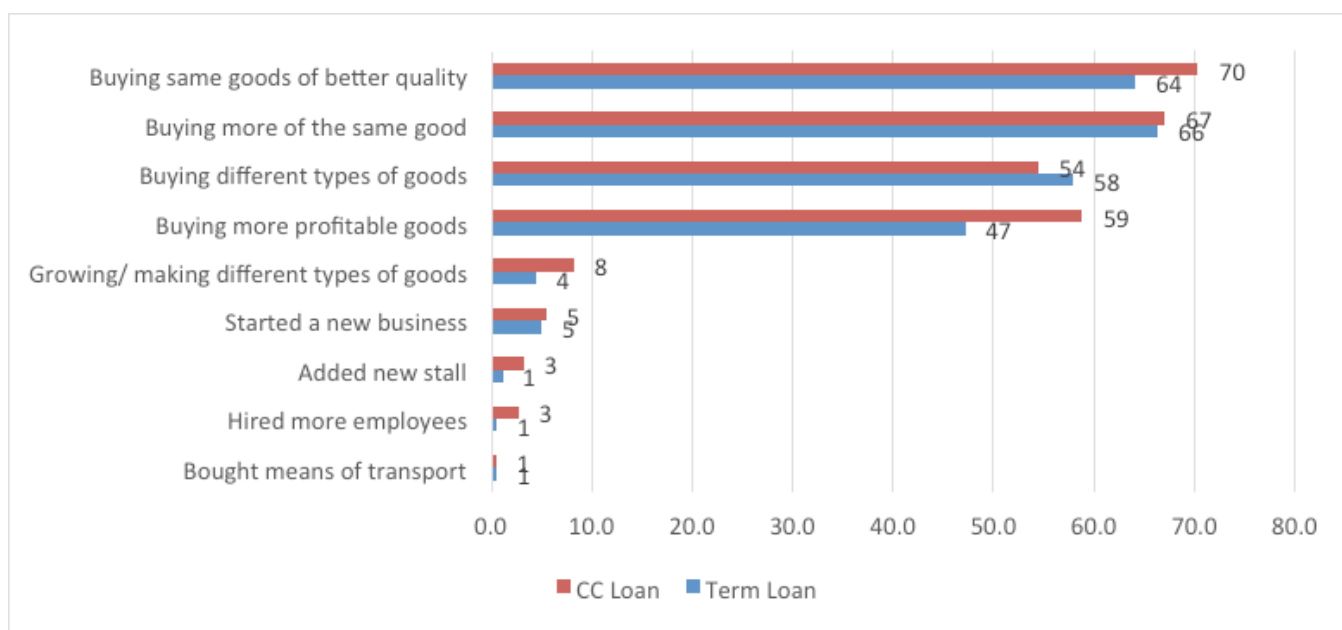
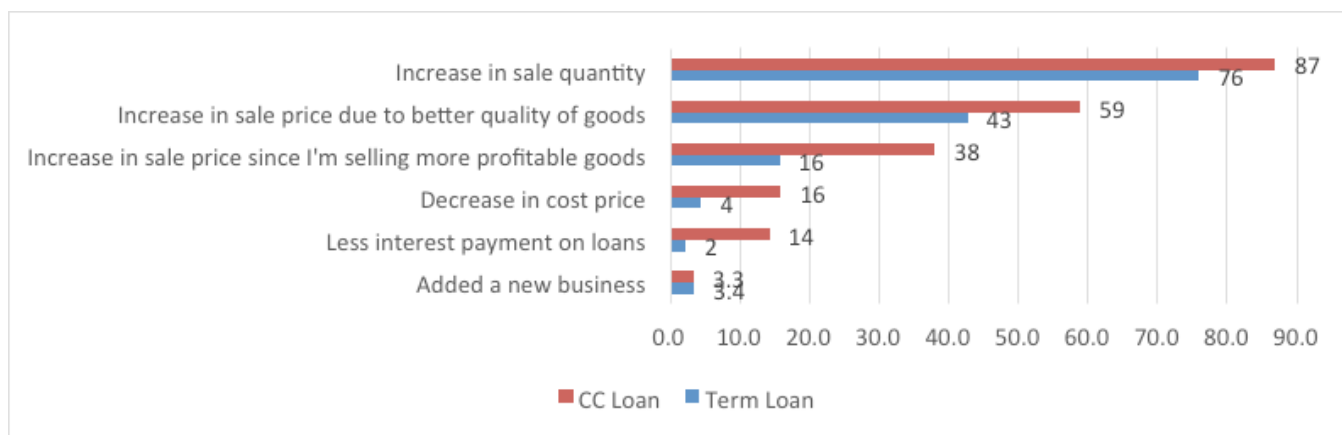


Figure 5.1.3: Reason for increase profits - percentage of respondents



5.1.2). For instance, members of the CCL group now bought different, better quality, and more profitable goods, or had added a stall, or had hired more employees.

One measure of profits per day, measured as, (Sales) - (Cost of stock) + (Cost of unsold non-perishable stock) increased by INR 1,305, an improvement of 80 per cent in the CCL group. In the end-line survey, 31 per cent of CCL clients reported a large increase in profits (as compared to only two per cent of TL clients). The main reasons were increase in sale price as the goods were of better quality, increase in sale price as the goods were more profitable, decrease in cost price, and lower interest payments (see Figure 5.1.3).

Four per cent of CCL clients had taken an external informal loan in the past six months, as compared to 11% of TL clients. Ninety-six per cent of CCL clients reduced

borrowing for working capital, vis-à-vis 82% of TL clients (mainly due to higher income and more savings).

Total business expenses per day on travel, rent, loan repayments etc., but not including stock purchase, was higher by INR 385 (a 40 per cent impact) in the CCL group. Personal consumption of the vendor at the market on a particular day (including purchases for herself and family, and cash transfers to other family members) increased by INR 30 (an impact of 16 per cent). Personal consumption includes expenses on purchasing daily groceries for the household, other products bought from the market, clothes for children or self, and stationeries/books/confectioneries for family members.

Total loan repayments for the day was INR 365 higher as was (unexpectedly) the number and amount of purchases on credit from the wholesaler. The latter may not necessarily be a bad thing, because anecdotal

Figure 5.1.4: financial diaries average values of outcomes

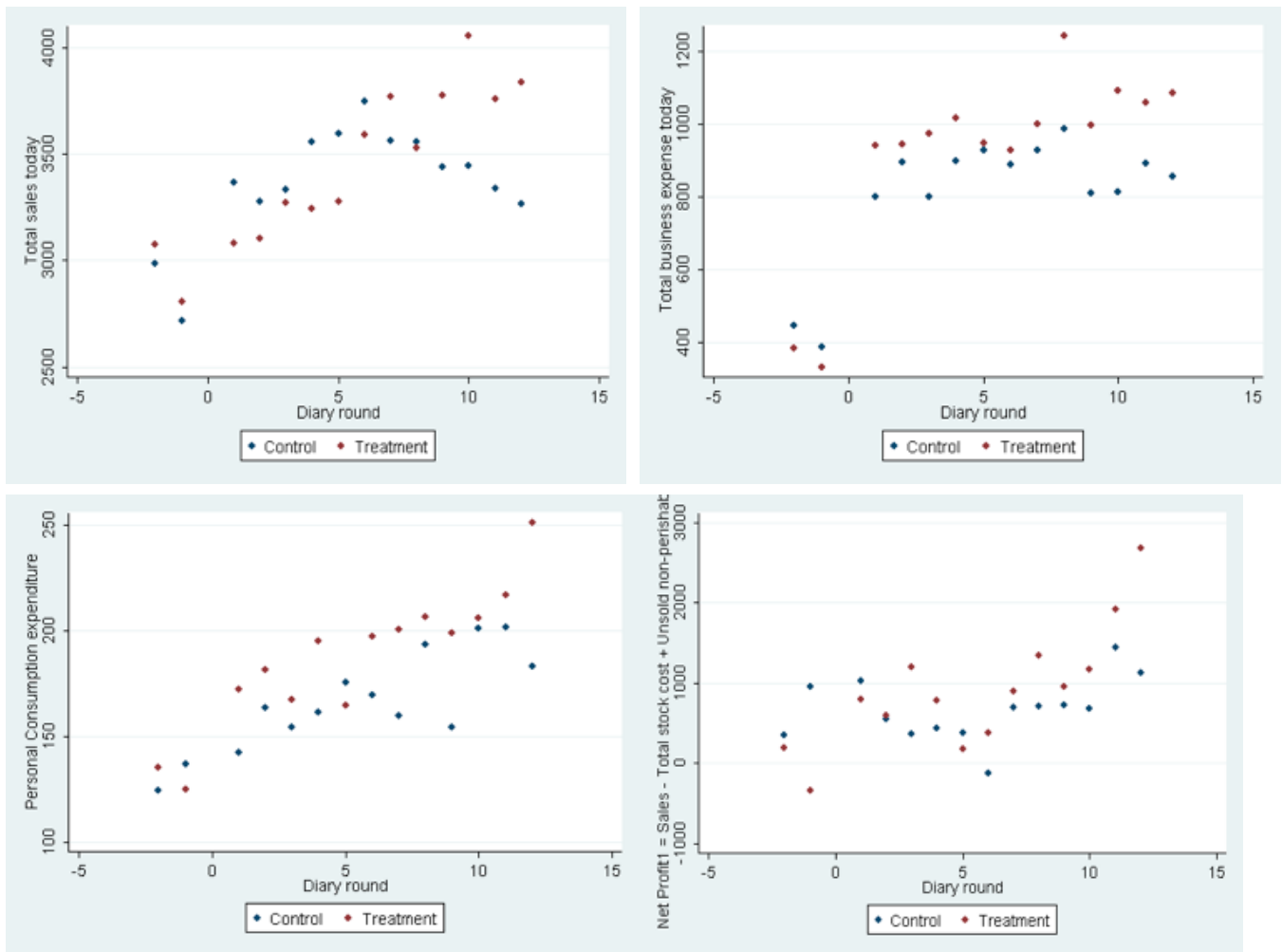
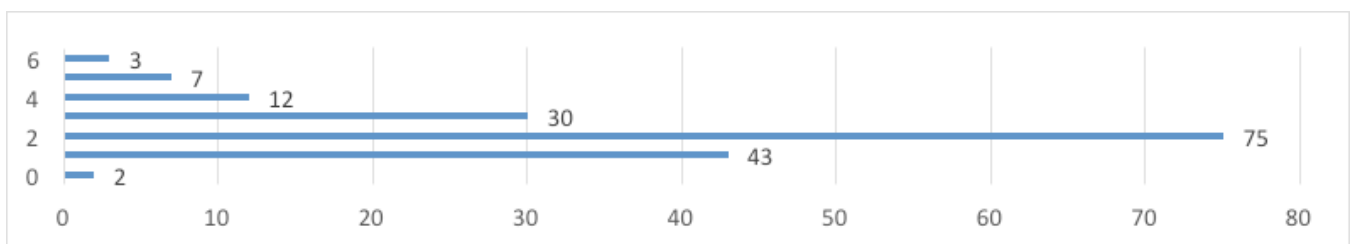


Figure 5.1.5: No. of withdrawals out of 172 respondents



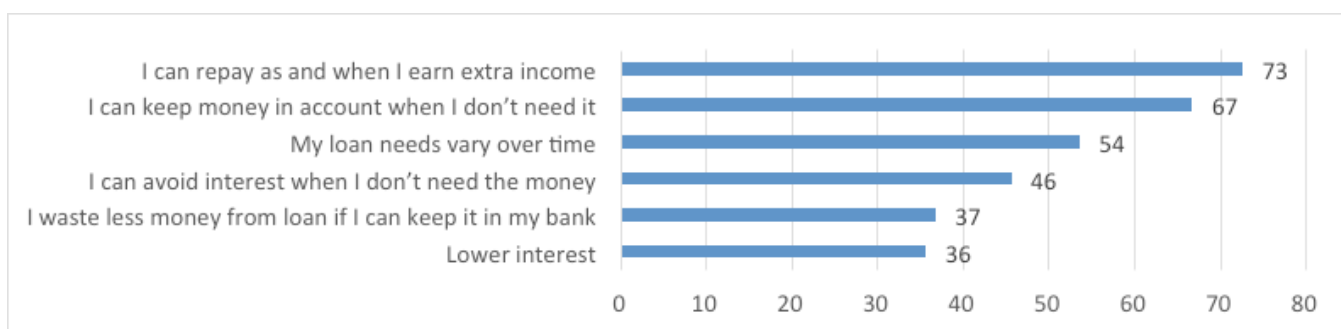
evidence suggests that buying on credit does not necessarily imply paying a premium for the goods bought.

Figures 5.1.4a-d present the change in the averaged outcomes of all clients in the TL (control) group and CCL (treatment) group, respectively, as collected using fortnightly financial diaries. The X-axis represents the week of data collection. The first two data points are before the loan, while the remaining are after the loan was disbursed (at X-axis, value equal to zero).

Other findings

Effective usage of CCL

An overdraft facility is new for these loanees. Ideally, they should use the facility to withdraw money, whenever they need cash for working capital; and then repay whenever they have surpluses. This would ensure minimisation of interest payment, as well as safe storage of monetary surpluses in the account, which would, in

Figure 5.1.6: Reason for preferring CC loan- Percentage of respondents

turn, curtail the temptation to indulge in discretionary expenses. However, the average number of withdrawals per CCL client was only about 2.5 in the six months after the loan disbursement (see Figure 5.1.5). As can be seen from the Figure, in the past six months, less than 25 (of the 172 respondents) had withdrawn from their account more than four times. Moreover, only 28 per cent have repaid more of the principal than the required weekly amount.

Knowledge of interest rates was satisfactory – as much as 89 per cent were aware that the bank levied interest only on the amount outstanding. Eighty-six per cent of CCL clients had withdrawn the maximum of their loan limit from their account.

These figures suggest that there is scope for improvement, which can be achieved through more financial literacy education and through more experience with the product.

Repayment patterns

Of concern is the consideration that CC Loans may be more difficult to repay since the discipline of weekly payments towards the principal is built into a term loan. Very few – 0.5 per cent of the CCL clients reported missing a week due to repayment difficulties. There was no difference in the number of delayed weekly repayments between the TL and CCL clients.

Customer feedback

Ninety-six per cent of CCL clients expressed that they were either satisfied, or highly satisfied with the product. Both TL and CCL clients revealed that they would prefer a cash credit loan in future because of certain features (see Figure 5.1.6), namely, flexibility in withdrawal, repayment based on their needs, reduction in interest payment, and because such loans help avoid discretionary expenses.



However, almost all the respondents wished for a higher loan limit (INR 50,000, on an average) which, they reported they can repay comfortably, though of course this amount needs to be considered with a grain of salt.

Case studies ⁸

Mrs Anandi Vishnu Jadhav: She is from Rahimatpur market, and runs a business of household items and stationery. She used to buy her products from the Satara market. After availing of a cash credit loan, she now buys her products from Pune at a much lower cost. Hence, she has more cash in hand. For example, initially, she used to buy products for INR 75, and sell at a margin of INR



5. But now, she buys for INR 35, and sells at a price of INR 75. When asked about the higher transportation cost involved in going to Pune, it was revealed that her group hires a van. Moreover, she expressed that her group members now have the liberty to buy as much as they can because the cost is divided among them, thereby reducing their overall cost.

Mrs Akkatai Javale: She runs a meat shop at Rahimatpur. Initially, she used to buy only one or two goats, as she did not have the cash to buy more. Such small quantity of purchases also negatively affected her bargaining power. However, after taking a cash credit loan, she not only has the capacity to buy more, but on the days when prices are very high, she can also avoid making a purchase. The transportation cost has reduced, as well, because she now buys in bulk, which has brought down the number of trips she needs to make to the market. This has helped in increasing sales and profit.

Mrs Rupali Landage: Mrs Landage has a fruit shop. A cash credit loan has given her more purchasing power and higher negotiation power with the wholesaler, thereby helping her to get better-quality products. Initially, because she was buying on credit, she had to accept inferior quality products. Moreover, prior to the loan she had to pay the outstanding balance in full to the wholesaler before getting new stock on credit. Thus, the cash credit loan has helped her buy not only more stock but also stock of better quality.

Clients have availed of new savings products from their

savings such as endowment life insurance products, post office savings account and Recurring Deposits from the extra profits they have made after availing the CC Loan. Purchase of new assets, such as auto rickshaw, van, and motorcycle have helped them reduce their transportation costs. Some of them were earning extra income by renting out these vehicles. Some of the customers have also shifted their children from government to private schools for better education. Clients have become more independent in taking business and household decisions due to the loan and increased incomes.

5.2. Business Case ⁹

Mann Deshi Weekly Market Cash Credit Loan

The product completed its first full financial year in 2014-15. During that period, the bank had deployed seven FSAs, five Loan Officers, and one Monitoring Officer to develop and manage the product. Outstanding balance grew by 1,193% (from INR 10.7 lakh to INR 1.38 crore over the year), for an average of INR 56.3 lakh over the year. The number of clients grew to 1,231 at the end of March 2015. The analysis of the revenue and expenses of this product is summarized below.

The ratio of expenses towards development and management of business during the year to the average outstanding portfolio comprised the following: commission plus expenses paid to FSAs (14.91%), salary

⁹ Based on a study by Sunil Aggrawal, Consultant

Table 5.2.1: Ratio of expenses to outstanding balance

Item of expense	Loan amount : Current average of INR 56.3 lakh	Loan Amount : Year-end loan outstanding INR 1.38 crore
Salary/Commission to FSAs	11.93%	4.86%
Expenses paid to FSAs	2.98%	1.21%
Salary to Loan Officers	13.31%	5.42%
Salary to Monitoring Officers	7.24%	2.95%
Total	35.46%	14.44%

Table 5.2.2: New FSA Commission Structure

No. of Accounts	Salary (INR)	Telephone Recharge (INR)	Average Travelling Cost (INR)
Up to 100	6800	300	2500
100 to 150	7500	300	2500
150 to 200	8500	300	2500
Up to 200	9000	300	2500
Thereafter, for every 50 accounts, the salary increases by INR 1,000			

[Note: Minimum of 20 accounts compulsory per month].

to Loan Officers (13.3%), and salary to Monitoring Officer (7.2%); other administrative expenses (7.84%) including shared costs such as office rent were proportionately allocated to this product. Added to this were the cost of funds (9.9%), negative carrying cost for CRR/SLR (0.99%), depreciation on PoS machines (0.4%), and standard NPA provision of 0.25%, for a total ratio of expenses of 54.49 per cent.

On the income side, the product earned 24 per cent on interest on the average loan amount outstanding and 9.83 per cent on fees for a total of 33.83 per cent. This implies a net loss of 20.66 per cent (54.49-33.83).

This calculation, however, was made on the basis of average outstanding balance (INR 56.33 lakh), whereas the year-end figure stood at INR 1.38 crore (with the expenses remaining the same). Moreover, the expenses towards FSAs and their management appear very high because they were computed on the average balance. However, these expenses were incurred on sales and management for achieving the high growth which led to a higher year-end outstanding balance. The picture is very different when these expenses are applied to the year-end outstanding balance as on 31st March, 2015 (Table 5.2.1). In 2015-16, the profitability is expected to be a lot better because the expenses on FSAs and Loan Officers are not likely to go up significantly, whereas the team of FSAs and Loan Officers had been handling a portfolio of INR 1.38 crore as on 31st March, 2015. If they continued to handle the same portfolio size of INR 1.38

crore, the expenses on staff to loan outstanding comes down to 14.4 per cent. Accordingly, the loss to the bank would be reduced to 2 per cent.

A break-even analysis reveals that, if the bank achieves a 30 per cent increase in the CCL portfolio size in 2015-16 to a total of INR 1.80 crore, by acquiring a total of 1,635 customers with the existing staff and with the same ticket-size of loans, it would earn a nominal profit of INR 0.5 lakh.

This is likely achievable based on the following conservative assumptions:

1. The bank already achieved 60 per cent growth in the last quarter of 2015 and would hence continue to grow at least at 30 per cent.
2. The increase in expenses would be proportionate to the increase in business during the year. In fact the FSAs' commission structure has been converted to a flat salary (Table 5.2.2) Based on this structure, at the existing business level of INR 138.35 lakh, the expense to portfolio size ratio for seven FSAs works out to 6.9 per cent as compared to 14.9 per cent paid last year.
3. The productivity of the FSAs will not drop due to the change in the commission structure.
4. Interest on deposits, interest on CC, other income, negative carrying cost on CRR/SLR and provision for

NPA would be similar to the previous year

Thus, in all probability, the bank would achieve breakeven in 2015-16, as is evident from the projections for breakeven levels prepared in the study, the findings of which are given below.

Table 5.2.2 depicts the revised commission structure of FSAs — from a flat 2.4 per cent of their portfolio to a flat salary structure. Subsequently the bank has added a variable component to this flat salary structure.

Mann Deshi Term Loan

During 2014–15, this product made a profit of INR 62.7 lakh, with a portfolio size of INR 8.77 crore, resulting in a profit to loan portfolio size of 7.15 per cent.

There is no difference in the cost of funds, provision of NPAs, and interest income between the two schemes. Having said that, the following observations were made:

- o The growth rate of the portfolio was 78 per cent. This product had a healthy base of INR 6.16 crore at the beginning of 2014.
- o TL had an average loan portfolio of INR 8.77 crore, which was more than 15 times the average portfolio of CCL.
- o TL's ratio of remuneration paid to FSAs was 4.7 per cent of the loan outstanding, as compared to 14.9 per cent in the case of CCL.

- o The ratio of expenses on Loan and Monitoring Officers was 1.5 per cent in the case of TL, as compared to 20.5 per cent in the case of CCL.

This product is financially viable primarily because of much larger portfolio and lower cost operating structure as compared to Weekly Market CC.

Mann Deshi's BC channel

The entire BC channel is comprised of two products – CCL and Term Loans. The average portfolio during 2014-15 was INR 9.33 crore. FSA Salary, commission and HO staff salary aggregated to 7.96 per cent. The channel earned a profit of INR 51.0 lakh in 2014-15 with a profitability of 5.47 per cent. The Term Loan component made a profit of INR 62.67 lakh while the smaller CCL component incurred a loss of INR 11.6 lakh.

The interest earning potential and interest expenses in both the schemes are similar. The difference in performance is largely due to lower ratio of salaries and administrative costs with respect to the average loan portfolio in JLG Loan.

Based on the above evidence, the profitability of BC Channel is likely to improve.

6. Concluding discussion

Small businesses are significantly better off using an overdraft facility — rather than availing a term loan of the same amount — in terms of higher sales, business investments, profits and consumption. As many of the CCL clients were using the product like a term loan, the impact would be higher if more customers had used it optimally.

The business case is sound for a bank with low cost structures, provided there is a certain minimum volume of business. Although loss-making in 2014-15 due to low volumes, it is expected that the product will break-even with growth in business achieved through the investments made during last year. Moreover, no instance of delinquency or agent attrition has been reported so far. There appears to be a tight control on the selection of FSAs and the borrowers. The same control will help to contain future delinquencies.

Thus, we conclude that it is possible for a bank to profitably design customised loan products for low-income households that are made available through individual BCs. Perhaps, the high expectations the development community has had from micro-credit could have been better met if the products offered were custom-designed and went beyond term loans.

In response to high demand from customers, Mann Deshi plans to expand offering the CCL product to traders and daily earners who run a business.

6.1. Considerations for replicators

In Table 6.1, the pros and cons of term loans vis-à-vis cash credit loans for both banks and their customers are presented. The general characteristics of a term loan and a cash credit account are depicted, as well.

Besides these advantages and disadvantages, while replicating the product, the following points need to be kept in mind:

Financial education: Despite being informed about the terms and ideal usage of the product, a large percentage of CCL customers were using the product like a term loan. To promote optimal usage of the product, Mann Deshi plans to screen to new borrowers an educational video of a successful customer. In other words, sufficient investment in financial education is needed to maximize client benefit.

Bank's profitability: While the borrower is free to deposit and withdraw money as and when required, small traders and CCL clients with lower income are more likely to keep the account fully drawn. The bank involved is unlikely to be at any disadvantage, in terms of lower utilisation of sanctioned credit facility (like, lesser interest income or asset-liability management issues). In fact, in response to a survey question on hypothetical cash credit limits they preferred if they were offered the product, the CCL clients in our sample specified an average of INR 50,000 (as compared to INR 45,000 by the term loan group).

Risk reduction: The requirement of compulsorily routing a part of the sales proceeds through the Cash Credit Account and depositing pro-rata interest on weekly basis is a prudent practice, which will keep the bank in regular touch with the borrower. To further reduce its risks, once the technology implementation is complete, Mann Deshi plans to set up a monitoring system to enable its customers to transact with any agent, and also monitor their repayments. In a cash-based economy, low-income customers find it difficult to demonstrate size of business turnover to a bank, as compared to more affluent customers. Thus, in the pilot phase, banks should first invest in understanding the customer, before scaling up.

However, it is hoped that higher incomes earned by CCL clients might help them handle the repayment better.

Assets: The term loan might be a better option for acquisition of fixed assets, as opposed to working capital.

LOAN ACCOUNT	
Benefits to the bank	Disadvantages to the bank
Loan amount stands utilized immediately which helps in quickly increasing the lending portfolio and consequent higher size of business and interest income.	The control over end-use of the funds is diluted as the borrower gets full amount although his/her immediate requirements may be less.
Funds utilization is full up to the sanctioned limit. This eliminates gap between bank's commitment of credit (sanctioned limit) and outstanding balance in credit portfolio. It helps in Asset Liability Management of the bank.	There is no provision of routing business transactions through the account. Therefore, the monitoring of the activities of the borrower through the account is limited to recovery of loan and interest.
The periodic repayment of loan in instalments helps in better control over recovery of loan as against Cash Credit where the repayment is not in instalments.	
Benefits to the borrower	Disadvantages to the borrower
Repayment of loan in instalments reduces pressure in repaying the loan liability.	Borrower starts paying interest on the entire amount though his/her immediate requirement may be for lower amount. This increases the interest cost.
	Even if there is surplus available for some time, the borrower is unable to reduce its interest liability on it.
CASH CREDIT	
Benefits to the bank	Disadvantages to the bank
There is a better control over funded activity of the borrower as there is a requirement of routing the business transactions through the account.	The sanctioned amount is not utilized immediately which results in lower lending portfolio and consequently lesser interest income.
The borrower is encouraged to draw only the required amount from time to time. This helps in closer monitoring of the operations of the borrowers' activities.	Since funds utilization fluctuates, this puts pressure on Asset Liability Management functions as there is a gap between the sanctioned limit and actual outstanding balance. Sudden withdrawal of un-availed limit by large number of borrowers can create stress on the liquidity of the bank. Income is uncertain.
	There is no periodic repayment of loan. This can create lack of credit discipline of the borrower and consequent difficulties in recovery of dues in lump sum.
Benefits to the borrower	Disadvantages to the borrower
Borrower pays interest only on the withdrawn amount. This reduces the interest burden.	Since there is no repayment in instalments, it may lead to lesser financial discipline, thereby creating pressure at the time of repayment of the loan.
If there is surplus available for short duration, the borrower is able to reduce its interest liability on the said surplus amount.	The borrower is required to deposit sales proceeds from time to time. At times, it may create operational problems in managing the business.
Has a constant amount of working capital credit available rather than a principal that shrinks each week.	If there are many low profit days towards the end of the loan tenure then, she will have less surplus for loan principal repayment and less for working capital.

General Characteristics of Loan Account	General Characteristics of a Cash Credit Account
<ul style="list-style-type: none"> o Disbursal is generally done in one or more instalments. o There is no facility to the borrower to deposit surplus and withdraw again. o Interest is applied on the outstanding balance as on the day-end/month-end in accordance with the terms of sanction. o Interest is recovered as and when debited in the account. o Recovery of the loan is made in monthly/quarterly/half-yearly/yearly instalments as per terms of sanction. o The operations in the account are limited to – <ul style="list-style-type: none"> • Debit of loan disbursement, interest and charges. • Recovery of the interest, charges and loan repayment instalments. o The outstanding balance in the loan account gradually reduces and becomes 'nil' upon payment of last instalment. Typically, a loan for 3 years, with repayment in equal instalments, will have an average balance during the 3 years equal to 50% of the original loan amount. For example, a loan of Rs.60,000/- for 3 years will result in an average balance of Rs.30,000/- over the period of 3 years in case all instalments and due interest are paid in time. 	<ul style="list-style-type: none"> o Cash Credit Account is an operating account wherein the borrower has the liberty to deposit money and again withdraw as and when he/she wants. o The amount sanctioned is not disbursed upfront. Instead, the bank sets up a 'Limit' in the Cash Credit Account up to the amount to be released within the sanctioned limit. In case full sanctioned amount is to be released, full 'Limit' is setup. However, in case, lower amount is allowed in the first stage, then such lower 'Limit' is setup. Subsequently, the 'Limit' is increased up to the sanctioned limit. Total outstanding balance is restricted to the 'Limit' setup in the account. o Interest is charged on the basis of day-end balance and is debited in the account at the month-end. The borrower has to deposit sufficient money in the account to ensure that the total balance in the account (including interest) remains within the 'Limit' setup in the account. o Cash Credit facility is meant to fund working capital requirements of the borrower. The facility is granted for a period of one year. After one year, based on the performance of the borrower's activities and operations in the account, the 'Limit' is revised upward/downward as per bank's assessment and revised terms of sanction. o In case the bank specifies a repayment schedule, the 'Limit' is reduced in line with the said repayment schedule periodically. The borrower operates the account within the said reduced 'Limit'. o Since the borrower can deposit money at any time and withdraw it again, the borrower can reduce interest liability by depositing surplus amount in the account till he/she needs again. Thus he/she saves interest on such surplus amount deposited in the account. In Loan account, the surplus amount remains in the hands of the borrower while he/she continues to pay interest on the loan outstanding balance.



giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
GIZ-Rural Financial Institutions Programme
A-2/18, Safdarjung Enclave, New Delhi 110 029 / INDIA