

## **Appendix 3**

**FINANCE FOR GROWTH AND POVERTY REDUCTION:  
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**Attitudes of Rural Branch Managers in Madhya Pradesh, India,  
towards their Role as Providers of Financial Services to the Poor**

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# **Attitudes of Rural Branch Managers in Madhya Pradesh, India, towards their Role as Providers of Financial Services to the Poor**

## **Abstract**

Discussions on banking reforms to reduce financial exclusion have included little reference to possible attitudinal constraints, on the part of staff at both branch and institutional levels, towards providing financial services to the poor. The research project, funded by the ESCOR (now Social Science Research) Small Grants Committee, has focussed on this particular aspect of financial exclusion. The research commenced in May 2001 and a final report will be submitted in April 2002<sup>5</sup>.

The presentation will first outline the rationale and objectives of the research, and then give details of research methodology to assess attitudes. Profiles are then presented of the rural bank branch managers in terms of personal background, professional background and work place. The attitudes of these managers towards different aspects of their work environment and the rural poor is then outlined, using results from both quantitative and qualitative analysis. The paper concludes by examining the policy implications of the findings. These include bank reforms to address human resource management, the work environment, intermediate bank management and organisation, and the interface with clients.

## **Introduction**

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Although financial services are seen as an important instrument in achieving targets for poverty reduction (Short, 2000), significant segments of both urban and rural populations are unserved by conventional financial institutions (Marr, 1999). Perceptions of high costs and high risk lead banks away from lending to small-scale operators in rural areas. Moreover, with respect to India “..the failure of the specialised rural credit institutions to become self-financing under cheap credit policy makes them deviate ultimately from their pre-laid objective of lending to the rural poor” (Shylendra, 1994).

The informal financial sector has long served the rural and urban poor, and still does so in India despite a massive expansion of institutional credit (Jones, 1994). Although informal agents such as pawnbrokers can have very real advantages for poor clients in terms of speed, lack of paperwork, small loan provision, multiple loan provision, and embeddedness in local culture, they generally provide short-term, low value and high interest finance (op.cit.) within a highly localised area of operations. Although the quality of financial services from NGO and other Micro-Finance Institutions (MFIs) in India is recognised to be high, the combined outreach of such organisations is less than 5 million in a country of over one billion people (Thorat, 1999).

Two very different views are evident regarding Banks and the provision of financial services to the poor. Writing of Bangladesh, McGregor (1988) suggested that there are: “...no grounds to believe that the banks have been willing or able to operate as development institutions for the poor”. In contrast, McKee (1989) noted: “...since the banking system represents such an enormous pool of resources, changing its behaviour even at the margin offers the potential to improve the livelihoods of millions of poor people.”

The latter view has a particular resonance for India where, although the rural banking sector has an unrivalled physical presence with nearly thirty-three thousand rural branches of Commercial and Regional Rural Banks across the country, the quality of outreach to the poor leaves scope for improvement in terms of low recovery rates, impaired viability of bank

branches, varying degrees of bureaucratisation and politicisation, and erosion in morale and enthusiasm of staff (Thorat, 1999).

In addition to physical presence, it is argued that banks can have the advantage of being regulated institutions with established administrative and accounting systems, which do not depend on scarce and volatile donor resources and which offer a range of financial services (Baydis, Graham and Valenzuela, 1997). Moreover, for a range of reasons, connected to public image and opportunities for diversification into new markets, a small number of Banks are becoming increasingly interested in the microfinance sector (ibid.).

However, in discussions concerning banking reforms required to promote financial inclusion, relatively little attention has been paid to the possibility that attitudes of staff, at both branch and institutional levels, may constrain the provision of financial services to the poor. It is this aspect of financial exclusion, with reference to rural banking in India, that the research project on which this paper is based, has concentrated on.

### **Background to the Research**

Wright (2000) emphasised that, to meet the needs of the poor in areas such as "...how the organisation's staff behave with their clients" financial services require revision and tailoring. Johnson and Rogaly (1997) noted how disdain and contempt meted out to the poor by bank staff may not be a monetary cost, "...but a cost all the same". Access to banks by small-scale borrowers can be inhibited by the nature, characteristics and requirements of these formal financial institutions (Jones and Sakyi-Dawson, 2002).

In identifying constraints to the provision of bank services to the poor, social barriers and issues of organisational culture have been evident, but usually expressed in rather general terms. Baydas, Graham and Valenzuela (1997) noted that microfinance has a different culture from that of traditional banking practices, leading to a separation rather than an integration of microfinance activities within banking organisations. With reference to banks providing loans to groups of poor clients, Harper (2000) described how staff attitudes discouraged entry into new markets and make it necessary for NGOs to act as matchmakers between the groups and the banks.

The background and recruitment of bank staff has been reported to be an important factor in shaping their attitudes. Bank staff are usually male, and physically, economically and socially distant from poorer people (Harper, 2000). Financial services for the poor can be regarded at the corporate level as a second class activity within an unsupportive organisational culture (Baydis, Graham and Valenzuela, 1997). In slum areas of India, bank staff were reported to resist visits to these areas, to have difficulties in gaining information about clients, to experience ambiguities in bank goals and to become alienated from their work (Everett and Savara, 1991). Such role ambiguities are acknowledged to contribute to low job satisfaction and stress at work (Furnham, 1997), and to impinge on a number of facets of work motivation (Hackman and Oldham, 1976). Baydis, Graham and Valenzuela (1997) reported how some banks introducing microfinance programmes for the poor deliberately appointed young staff from outside the bank, finding such staff more receptive to the special mission and practices of microfinance programmes.

Corporate culture and attitudes towards the poor can be heavily influenced by government policy. Schemes that the rural banks have been required to implement in India have

‘conditioned’ banks to believe that poorer people are weaker sections of society rather than potentially valuable customers (Harper, 2000).

To identify in greater detail possible attitudinal constraints in the provision of banking services to the poor, this research combined the perspectives of occupational psychology and development finance. The aim of the research described here was to assess the attitudes and perceptions of rural bank managers towards their professional role as providers of financial services to the rural poor. We conceptualised their roles as relating to the roles of their clients and to the roles of a variety of people within their organisations who manage/and or support them. By asking the managers to focus on their professional role we simultaneously explored their views of themselves, their own situation (in terms of goals, resources, incentives and risks), their views of their clients and their cultural contexts, and their views of their organisations, its members and leaders, its culture and its institutional contexts.

### Location, Sampling and Research Methodology

We viewed the project as an exploratory process enabling us to identify and understand key concepts regarding attitudes and behaviour of rural bank staff. Following an initial literature review, a workshop was held in Reading to explore objectives and methodologies for the research, and a similar workshop was held with local stakeholders in India.

Subsequently, the field research was conducted within three Districts in the State of Madhya Pradesh (MP) - a State with an extensive banking infrastructure (1389 rural branches of Commercial Banks and 1284 rural branches of Regional Rural Banks – RRBs) and with relatively few financial service providers other than the banking system. The three districts, Betul, Datia and Indore (Map 1), were chosen to reflect the main socio-economic characteristics of MP.

**Figure 1: District Map of MP**



From Table 1 it can be seen that the three districts are very different in terms of physical size, population density, concentration of urban population, proportions of Scheduled Caste (SC) population, and proportions of Scheduled Tribe (ST) population. In terms of the overall Human Development Index, Indore ranks number 1 out of 45 districts in the State (former boundaries), while Datia and Betul are ranked 27 and 41 respectively. The relative ranking changes somewhat for the Gender Development Index; although, of the three districts, Indore still ranks the highest (No. 7), Betul and Datia are now ranked 17 and 35 respectively. These latter figures may well reflect the more urban and modern environment of Indore, the more “tribal” egalitarian society of Betul and the more feudal nature of society in Datia.

**Table 1: Profile of Sample Districts**

	<b>Betul</b>	<b>Datia</b>	<b>Indore</b>
Area (Sq. Kms.)	10,043	2,038	3,898
Population density/ sq. kms. (1991 census)	118.0	194.0	471.0
Urban population (%) (1991 census)	18.6	22.4	69.4
Scheduled Caste (SC) population (%) (1991 census)	10.8	24.7	16.7
Scheduled Tribe (ST) population (%) (1991 census)	37.5	1.7	5.5
Human Development Index Rank (erstwhile MP with 45 districts)	41	27	1
Gender related development index (erstwhile MP with 45 districts)	17.0	35.0	7.0
Cropping intensity	119	106	142
Fertiliser consumption / hectare (Kg.)	20.2	32.5	68.8

Source: The Madhya Pradesh Human Development Report 1998

Twenty rural bank branches were randomly selected from each of the three districts giving a total of forty-eight commercial bank branches and twelve Regional Rural Banks (RRBs); no RRBs exist in Betul. The sixty branches selected represented substantial proportions of total rural banks in each of the three areas: for two of the districts (Indore and Betul) nearly half of all rural banks in the districts, while for Datia nearly three-quarters of all rural banks in the district.

The data collection instrument used to obtain information from the branch managers was an interview schedule. After pre-testing and revision in Bhopal (the State capital for Madhya Pradesh), this was divided into four parts. First, (A) information about the branch managers and their current posting was sought. This enabled us to build up demographic profiles of branch managers and to later determine if any of these variables were associated with attitudes towards providing financial services to the poor. Second, (B) respondents were asked to express their level of agreement/disagreement (5-point Likert scale) with each of fifty-two statements designed to permit measurement of attitudes towards characteristics of the poor, financial service needs of, and provision for the poor, towards the rural work environment, the role of the bank, and the role of the bank manager. Half the statements represented positive orientation towards the facets of attitude, half represented negative feelings. Positive and negative statements were randomly mixed within each of the three main themes: the rural context, views of poor clients, the branch managers views of themselves and their situation. Third, (C) a series of open-ended questions eliciting branch managers' perceptions of the contrasting features of successful and unsuccessful rural bank branches were provided. Fourth, (D) a second open-ended section followed, including questions concerning branch managers' views about themselves and their work (career

experience, training received, how they were managed), how their managers viewed them and how their families felt about their current post.

Branch managers were either interviewed at their branch or at the district headquarters. All were interviewed individually, having been assured of the confidentiality of their replies, by the interviewer and, via a tape-recording, by the Reserve Bank of India member of the research team. The average length of interviews was 1 ½ hours.

### Data Analysis

Demographic information (A) provided information about characteristics of the manager and his (all were male) career (age, marital status, children, qualifications, social background, years of service, years and number of rural postings) and about his branch (distances between residence, branch and district headquarters, staffing, number of vouchers and number of vouchers below the poverty line). These data were scored as continuous and/or categorical variables, as appropriate.

Responses to attitude statements (B) were scored as +2 to -2 (most negative), reverse scoring being used for negatively worded statements. The 52 items were grouped to form an overall attitude mean (Cronbach's alpha = 0.8135). In addition, items pertaining to rural context, views of poor clients, managers' views of themselves, and to other variables of interest, were grouped to provide means for subsequent analysis. The composition and reliabilities of these variables are shown in Table 2.

**Table 2: Means and Reliabilities of Attitude Variables**

Group	Group Name	Number of Items	Cronbach's Alpha	Mean	Standard Deviation
ATTMEAN	All questions from B	52	0.8135	-0.0968	0.31486
RURCTXT	Rural Context	7	0.5911	-0.5071	0.50485
PRCLIENT	Views on poor clients	7	0.6813	-0.1548	0.62701
BMSELF	BMs view of selves	10	0.7252	-0.165	0.58825
FAC1	Impact of job on self/relationships	6	0.7232	-0.8333	0.64659

While these item groupings emanated from our research questions and emphases, we were also interested in how the items might be grouped from the respondents' perspective. A Principal Components Analysis by varimax rotation was employed to discover any such item groups/factors. To permit the analysis, the set of 52 items was reduced to 24, selected to reflect the issues addressed by the original 52, while still retaining the balance of positively and negatively worded statements. Eight components with eigenvalues greater than one were extracted, only the first two of which accounted for more than 10% variance. The second component reflected managers' views of their roles, mapping closely onto an item group already identified. The first component was of interest, however; Fac1 involved items concerning the managers' perceptions of their work as part of their lives, the impact of their job on their views of themselves and their relationships with others. This factor provided a further item group (see Table 2).

A series of analyses of variance and Pearson's correlational analyses were carried out to investigate the nature of any relationships between the variables described above.

As well as responding to an invitation to comment on the statements in the attitude measure, the branch managers gave free responses to the open-ended questions in sections C and D of the schedule, dealing with their views of the contexts of successful, unsuccessful and their own, branches, and of their own careers and roles, respectively. These questions had been designed to lead managers to express their individual perceptions of their lives, roles, and the social and institutional systems within which they worked, beyond the confines of the issues targeted by the attitude statements of section B. These free-response sections were essentially projective, not requiring invidious comparison nor comment on real cases except where the manager's own branch, or career, was the focus, and were expected to provide rich accounts of the managers' perceptions. Analysis and interpretation of their content provided further insight into issues of concern to the managers, which are encapsulated in the summaries provided below.

The data emerging from the interviews are given below, in terms of three main areas. First, characteristics of the rural branches and rural branch managers are described. Second, data concerning the branch managers' overall attitude levels are provided. Third, areas of particular concern to the branch managers emerging from both the quantitative and qualitative data are examined.

## Results

A very brief profile of the sample rural branches are shown in Table 3, with respect to all branches and with respect to branches of Commercial Banks and branches of Regional Rural Banks (Banks specifically established in 1975 for lending to rural target groups, with equity owned by the sponsoring Commercial Banks, the relevant State Government and the Government of India). The average number of vouchers (records of financial transactions), a commonly used measure of bank business, totalled 88 per day; more importantly, just over a quarter of the branches processed fewer than 50 vouchers per day indicating low levels of business. The average number of staff per branch was just over three for Scale I-III officers and clerks. The average distance of the sixty branches from their respective district towns was 34 kms.

**Table 3: Profiles of Sample Rural Branches**

	Details	TOTAL (N=60)	COMMERCIAL BANKS (N=48)	RRBs (N=12)
<b>Distance from district HQ</b>		34 kms	34 Kms	35 kms
<b>Average number of Staff</b>	Scale I-III, + Clerks	3.35	4	2
	Subordinate Staff	1	1	1
<b>Average number of vouchers</b>		88	97	49

Profiles of the managers in charge of the branches are given in Table 4, again with respect to total branches, branches of Commercial Banks and branches of Regional Rural Banks. The managers were predominantly from a non-rural background and non-poor family background, and a low proportion of managers belonged to Scheduled Caste (SC) and Scheduled Tribe (ST) communities. However of the SC and ST managers appointed high proportions of them were placed in Data and Betul, two districts with substantial proportions of Schedule Caste and Scheduled Tribe populations respectively. Nearly half the managers

had three or more children and only just over one third of the managers resided in the village to which they were posted. For those branch managers who commuted to their branches on a daily basis, the average length of the journey was 25 kms.

A striking feature of the Commercial Bank managers is that almost all of them (93%) were promotees who have risen from the ranks of clerical staff. As shown later, the perceived unfavourable treatment of such officers compared to the direct recruits into the banking system was the object of much discussion in relation to issues of posting and promotion. Between them the branch managers have an average of 20 years of service in their bank, of which an average of six years was spent in rural postings. Although for the Commercial Bank managers the average number of years of rural posting was half that for the RRB managers, this still represented more than half the stipulated period of two years in a rural posting.

**Table 4: Profiles of Sample Rural Bank Managers.**

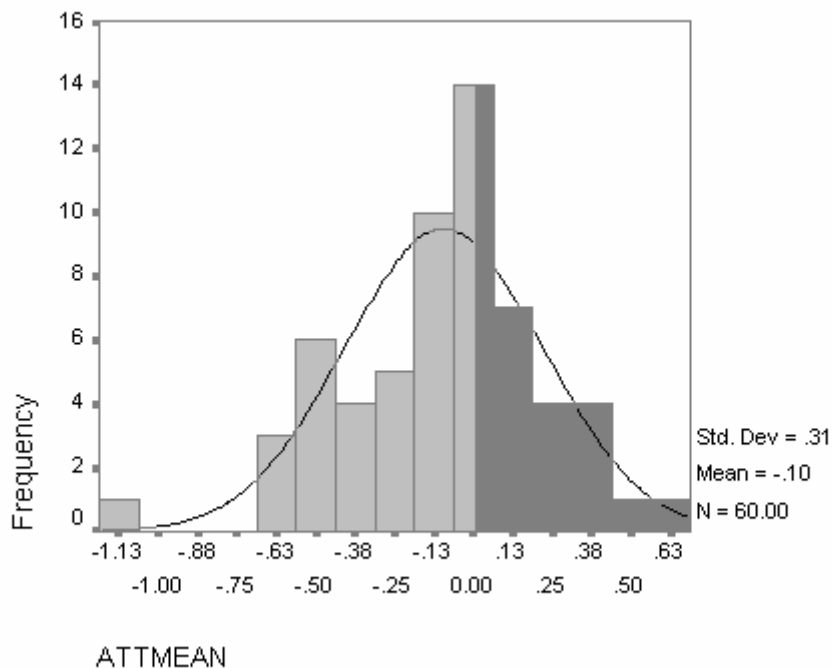
Personal Profile	Details	ALL BANKS	COMMERCIAL BANKS (N=48)	RRBs (N=12)
<b>Sex (Male)</b>		100%	100%	100%
<b>Average Age of BMs</b>		44 yrs	45 yrs	40 yrs
<b>Background (Rural/ Urban)</b>	<i>Rural</i>	25%	27%	16%
	<i>Semi-Urban</i>	28%	23%	50%
	<i>Urban</i>	47%	50%	34%
<b>Class Background</b>	<i>Poor</i>	3%	2%	8%
	<i>Lower Middle</i>	18%	21%	8%
	<i>Middle Middle</i>	68%	69%	67%
	<i>Upper Middle</i>	10%	8%	17%
<b>% BMs SC/ ST/ OBC/ Others</b>	<i>General Category</i>	77%	78%	75%
	<i>Scheduled Caste</i>	10%	8%	17%
	<i>Scheduled Tribe</i>	8%	8%	8%
	<i>Other Backward Classes</i>	5%	6.25%	NA
<b>% BMs with 3+ children</b>		42%	44%	32%
<b>% BMs living in the village</b>		37%	42%	17%
<b>Avg. distance of res. from branch</b>	<i>for commuting BMs</i>	25 kms	20 kms	36 kms
<b>Work Details</b>				
<b>Type of recruitment</b>	<i>Direct Recruits</i>	NA	8%	NA
	<i>Promotees</i>	NA	92%	NA
<b>Training Received</b>	<i>% received training</i>	93%	92%	100%
	<i>% received rural training</i>	50%	38%	100%
	<i>% 3 ≥ training</i>	40%	35%	50%
<b>Avg. no. of years in bank service</b>		20 yrs	22 yrs	14 yrs
<b>Avg. no. of years in rural postings</b>		6 yrs	5 yrs	10 yrs
<b>Scale of BM</b>	Scale I	48%	38%	NIL
	Scale II	48%	58%	92%
	Scale III	4%	4%	8%



### Overall Attitudes of the Rural Bank Managers

The overall (mean) attitude score for the Managers was negative (- 0.10). As Figure 2 shows, this mean represents a (small) majority, 60% having negative attitude mean scores, 37% expressing an overall positive view. To reiterate, this overall attitude measure incorporates views of characteristics of the rural poor (e.g. as clients), of working in a rural context, and of themselves within the banking context, providing financial services to the poor. That the overall mean was negative may imply a fairly general level of dissatisfaction with their work situation. Not all managers were negative towards their work overall, however.

**Figure 2: Frequencies of Mean Attitude Scores**



In order to discover which characteristics of managers might be associated with their overall attitude, a number of analyses were carried out.

Amongst significant findings, the following were of interest:

Managers with an urban background were more negative overall ( $M = -0.207$ ) than both those with a semi-urban ( $M = -0.18$ ) and those with a rural ( $M = 0.021$ ) background: [ $F(2,57) = 3.59, p < 0.05, MSE = 0.041$ ]

The impact of the rural context was again seen in the contrast between overall attitudes of managers in Datia ( $M = -0.237$ ) (the least developed district) and those in Indore ( $M = -0.01$ ) and Betul ( $M = -0.53$ ) – the difference between mean attitude of managers in Datia and those in Indore being significant [ $F(2,57) = 3.34, p < 0.05, MSE = 0.041$ ]

A curvilinear relationship appeared to exist between overall attitude and years of service, such that those with less than 15 years service were more negative ( $M = -0.309$ ) than those with between 15 and 25 years service ( $M = -0.027$ ), while those with more than 25 years service ( $M = -0.118$ ) seemed moderately negative; only the difference between the shortest and the middle-range years of service groups, was statistically significant [ $F(2,57) = 3.79, p < 0.05, MSE = 0.041$ ]

There was a positive correlation [ $r(58) = 0.294, p < 0.05$ ] between the number of trainings taken by managers and their overall attitude score.

### **Analyses of relationships between managers' attitudes toward rural context, towards poor clients, and towards themselves, and characteristics of the managers**

The means of the subscale scores for the groups of attitude items referring to 'rural context', 'poor clients', and 'themselves' were shown in Table 2. Managers expressed more negative views of the rural context than to both poor clients or to themselves [ $F(2,58) = 13.25, p < 0.01, MSE = 0.079$ ]

Examining each subscale in turn, it emerged that:

The relationship between attitude towards rural context and years of service was similar to that between overall attitude and the years of service variable: those with fewest (less than 15) years service had more negative attitudes towards the rural context, than those with the middle-range of years of service (between 15 and 25 years), [ $F(2,57) = 7.90, p < 0.05, MSE = 0.065$ ].

Views of poor clients were related to the background of the managers – those with urban backgrounds being significantly more negative in their views than those with semi-urban backgrounds [ $F(2,57) = 3.56, p < 0.05, MSE = 0.08$ ]; their views also appeared more negative than those of managers with rural backgrounds, but this was not a significant effect.

View of the managers towards themselves again reflected district differences – those in Datia were more negative than those in Indore [ $F(2,57) = 3.32, p < 0.05, MSE = 0.076$ ] There were positive correlations between the manager's views of themselves and both the total number of trainings they had received [ $r(58) = 0.413, p < 0.05$ ] and, more specifically, the number of rural trainings received [ $r(58) = 0.313, p < 0.05$ ]. The impact of their work on managers' views of themselves and their relationships (FAC1) was affected by Type of Recruitment [ $F(1,58) = 4.02, p < 0.05, MSE = 1.60$ ].

It may be worthwhile concluding this section by making two points.

First, pointing out that although views towards rural context are more negative than views towards clients and views towards themselves, particular sub-sets of questions revealed very negative attitudes towards particular aspects of poor clients, and of themselves and their situation.

Second, the more open-ended section of the interview schedule gave the BMs the opportunity to express their feelings in greater detail in all three areas, and here there were also many negative points made regarding views towards poor clients and views of themselves.

## **Views of Rural Context**

Around two-thirds of the branch managers reported they found life in rural areas pleasant and that such areas form an interesting environment. As one of them put it: *“I like my rural posting as I get recognition from mass society here. It is not like that in cities.”* However, as noted when looking at attitude scores, such views vary with location of posting. In Datia a much lower proportion of managers were quite so well disposed to rural life, no doubt due to the oft mentioned problem of *dacoits* (bandits) in this part of Madhya Pradesh. Moreover, although two-thirds of the managers have positive views on rural life only just over a third of the managers actually reside in the villages where their banks are located. Again, this figure varied greatly with District. Only ten per cent of the managers in Indore reside in their “work” villages, though this probably reflects the greater ability, in terms of infrastructure and proximity, of the branch managers in Indore to commute to their village branches from their places of residence.

Many of the branch managers emphasised the importance of a prosperous service area, good infrastructure and good branch location for achieving a successful branch. Prosperity of the area was expressed in terms of good agricultural facilities, good irrigation and/or regular rainfall, particular crops (e.g. sugarcane, flowers, vegetables) and/or particular activities (e.g. dairying). Good infrastructure included such items as roads, electricity, schools and markets, and, by good location the managers emphasised proximity to a main road, and to semi-urban and urban areas: *“I have achieved all targets but not by helping the poor. I have got big business from the cities given the location of the branch...it is close to the city and there are new colonies.”*

A common feature of rural areas is high migration out of such areas to secure employment (de Haan, 2000). Views were mixed on how this phenomenon impacts on the provision of banking services. Although a third of the branch managers felt the rural poor who migrate learnt better banking habits more quickly than those who remain in the village, a high proportion of the branch managers (80%) felt such migration made it difficult for the bank managers to maintain contact with this group.

The local context is also characterised by local political interests and influence. Over fifty of the sixty bank managers reported that important people in the local area try to influence the bank over who will receive concessional credit. As one of the managers put it: *“The local MLA called my boss to tell him to request me to give a particular loan. My boss told me we have to adjust in rural postings.”* The managers’ views on Government sponsored schemes are also rather negative, details of such views these are given later in the paper.

## **Views of Poor Clients**

### ***Characteristics***

Although nearly all the branch managers viewed the poor as having a contribution to make to the development of the Indian economy, just over half of these same managers viewed lending to the poor as high risk. Nearly all branch managers associated the poor with high loan diversion, and a large majority of them agreed that the poor think it is the responsibility of the branch managers to ensure repayment of loans. Such negativity may be associated with Government sponsored poverty alleviation schemes for the poor (see Government below) as many of the managers thought there was a good chance of recovery with commercial lending to the poor.

Given the post-reform emphasis on profitability, a number of managers indicated how their own worries about risk and repayment impact negatively on their lending to the poor; one manager explained how *“recovery is such a big issue, so that the branch manager lends money to the top 1% of the Below Poverty Line so that recovery is ensured”*.

However, high proportions of the branch managers had very positive views of women clients compared to men; in terms of greater trustworthiness (73%), better repayment (80%) and in terms of having greater skills in the development of new enterprises (62%). Even so, an even higher proportion of the managers (87%) thought allocating credit to women results in men using women to obtain bank loans.

The importance of having good clients for a successful rural bank branch was felt in general terms (e.g. clients who are educated, responsible, honest, united, complaint free) but also expressed in terms of clients who have a good knowledge of banking practices and procedures, and who are good repayers.

### ***Client relations***

The bank managers distinguished between their perceptions of particular kinds of clients and the overall importance of good client relations for a successful bank branch. Thus, they themselves acknowledge that relations with clients do matter, and many of them (70%) emphasised the need for politeness, trust, mutual respect, and understanding in dealing with clients.

Many of them also had suggestions as to how such good relations could be facilitated emphasising the need for contact, residing in the village, understanding the psychology of the villagers, educating the villagers, treating clients equally and having suitable banking hours. As one bank manager put it *“The rural customer wants attention, they don’t mind being kept waiting, but they want to be recognised by the Branch Manager and staff. The way we treat customers in rural areas has to be very different from the way we treat them in urban areas.”* Good relations were also felt to be important within the branch as well as dealing with clients: *“The employees, the Branch Manager and the customers form a triangle...if this triangle has a smooth flow then there will be growth on all sides.”*

### ***Financial service needs***

Although, as we shall see, many of the bank managers were highly critical of government sponsored directed credit schemes, the majority of them (58%) thought that providing concessional credit was the best way of helping the poor. Similarly, only nine of the 60 managers thought the poor should pay the same rate of interest as all other clients. Even so, nearly half the managers agreed that providing concessional credit makes the poor more dependent, and nearly all of them thought that the non-poor try to obtain such concessional credit.

A number of the bank managers stressed the importance of providing flexible credit and it was also pointed out that loan diversion arose because the poor cannot obtain money from the banks for what they need.

Given the present policy stress on group lending in India it was striking how negative the branch managers were towards such schemes, from the clients’ point of view as well as from the bank’s perspective. Nearly all of them (93%) felt that poor clients would rather have an

individual loan from the bank, and nearly as many of the managers believed that establishing and maintaining groups is more time consuming than providing individual loans to the poor. Moreover, nearly half the managers thought that recovery of loans from groups is more difficult than recovery of loans from individual clients.

In open comments the managers identified a number of problems that can arise with the implementation of group lending schemes. These mainly concerned group formation, group maintenance, and the understanding of the group approach. Forming groups can be problematic because of defaulters, groups can be formed for the wrong reasons, and poorer members in the village can be squeezed out: One manager noted how *“Self Help Groups are formed only for the sake of acquiring loans. Once they get loans, they forget about the groups.”*; another manager noted that *“The persons whose husbands are powerful control the group more. The poor are deprived.”* A third branch manager thought it was difficult to explain the group system when this system was itself little understood at the corporate level.

## **Views of Themselves and their Situation**

### ***Present and future career***

A quarter of the bank managers gave banking as their original career choice, citing, among other reasons: high status and security of the job, a family background in banking and/or business, the desire to help the poor and the relative lack of corruption compared to other services. Moreover, nearly all (88%) of the managers thought their work as rural branch managers was vital to the overall success of their bank. Only five of the sixty branch managers expressed dissatisfaction with their career choice. As one of the five rather mournfully put it: *“I joined the bank because I thought I would get a city life as there were no rural banks then...look what has happened now!”*

More specific questions on present and future career prospects elicited rather more detail from the Branch Managers on the reasons for positive, and negative feelings towards their work. Nearly two-thirds of the managers reported satisfaction with their present career giving between them, four main reasons: their work is recognised and rewarded; their work is varied and they have freedom and respect; good postings and promotions; and ability to help villagers.

However, 25 of the 60 managers were unhappy with their present careers and here issues relating to promotion, the felt unequal treatment of promotees compared to direct recruits, work pressure and postings are causes of considerable dissatisfaction. One manager asked *“why am I being sent to rural again? I am on leave right now and protesting”* while another manager explained the difference between the promotees and the probationers (direct recruits) as *“the difference between the Indians and the British in the Indian army.”*

Compared to views on their present careers, the managers' views on their future careers were even less rosy. Here they emphasised bad conditions, lack of a proper incentive/reward system, downsizing and contraction in the banking sector, lack of consultation, sponsor bank negative attitudes towards the RRBs, high workloads, political interference, and again, promotion and posting arrangements. Only a third of the managers found their rural posting the most fulfilling part of their career.

### ***Training***

In identifying the characteristics of a successful rural bank branch over half the managers stressed the importance of having a good branch manager and indicated the qualities required of such a manager: trained, competent, hard working, a good team leader, able to take risk, an agricultural expert, not corrupt and not involved in local politics.

However, although 56 the 60 branch managers reported having had received some training, only 18 of the 48 Commercial Bank managers indicated they had received rural specific training. In contrast, all of the 12 RRB Branch Managers had received such training. As we have seen a much higher proportion of managers in Indore (30%) had received three or more training inputs compared to Betul (30%) and Datia (23%).

Where managers do feel positive about the training they have received this is largely due to felt increases in knowledge, confidence and motivation. Some also appreciated the practical aspects of training: *“The RBI training was very good. It was practical. We were taken to a site.”* Another manager felt that the training was good because it provided a theoretical foundation to the work and he thought that practical aspects of a rural branch manager’s work could only be learnt on the job.

However, this was not a point of view shared by the 21 managers who had not found their training useful for their rural work. Here the managers commented that the training was too theoretical, inappropriate for rural postings, had not changed over the years, and that they were sent for formalities sake. One manager noted how *“The training programmes have remained the same all through the years. In the staff college the same mundane issues are reinstalled, no practical issues are addressed”* while another manager explained how *“they give your forex training and send you to rural areas.”*

### ***Resources***

A high proportion of the branch managers (72%) feel that the resources (staff, equipment, accommodation) available to do their work are not adequate. A quarter of the manager had emphasised that good facilities are an important requirement for a successful rural bank branch pointing out the need for good premises, the availability of electricity, and good means of communication. Moreover, nearly two-thirds of the managers indicated that having adequate and good staff (trained, co-operative, not corrupt, motivated, flexible, practical) is an important characteristic of a successful rural bank branch. How they view the management of such resources by higher authorities is the subject of a later section in the paper.

### ***Posting***

As noted above a significant part of career dissatisfaction concerns issues relating to the posting of bank staff in rural branches. Rather ironically, given their criticisms of the unfairness of the posting system, nearly 70 per cent of the managers agreed they would arrange to be posted to an urban branch if they could influence their superiors.

For a successful rural bank branch over a third of the managers indicated one or more of the following: that rural branch postings should not be compulsory and treated as a punishment posting, they should not be for longer than two years and rural postings should be linked to promotion. One manager noted that *“the bank has no analytical system on whom/how many of us have been posted to rural areas.”*

### ***Family***

Just one quarter of the branch managers have a rural family background and their views on the effects of a rural posting on their families are generally very negative. Fifty-two of the sixty branch managers think a rural posting seriously disrupts the family life of a branch manager. This is especially the case for the managers posted to the more rural areas of Betul and Datia.

When asked about their families' perceptions of their rural posting just over 60 per cent of the branch managers said these were negative, largely due to the cost of double residences, little time for the home, and problems of education facilities for the children. As one manager put it: "*They say the house is treated like a hotel.*"

Where the managers reported their families felt positive about his posting this satisfaction was usually expressed in terms of proximity of posting to family home and/or proximity to a town or city.

### ***Financial Service Provision***

Although high proportions of branch managers view the poor as high risk and express dissatisfaction with rural posting systems, nonetheless, a very high proportion of the managers think that the banks should provide direct financial services to the poor rather than through intermediary organisations. In addition, just over two-thirds of the managers think it is possible for the banks to make a profit and at the same time help the poor. However, deciding what is the priority between these two objectives may be conflictual for the branch manager.

Twenty-two of the sixty bank managers clearly thought there was a conflict between helping the poor and making a profit. As one of them put it "*Profit and development are two different things. The concept of profitability now guides banks, only NGOs can do development.*"

Even so nearly fifty of the managers indicated various aspects of a well-run branch and good financial service provision that would characterise a successful rural branch. Here they mentioned profit making, achieving targets and good inspections, good identification of borrowers, good and low cost deposits, good loan recovery increasing business and the customer base, and helping the poor. Nearly half the managers further indicated that for a successful bank branch there should be no forced lending and that targeted lending should be done away with, a point we return to below.

## **Views of Their Organisation and Government**

### ***General management***

Views of the bank managers towards higher management in their banks tended to be rather negative, even though a number of the managers had stressed how important an understanding management is for a successful rural branch. Nearly all of them (87%) feel their higher authorities do not realise how difficult a rural bank manager's job is, and just over two-thirds of the managers feel that their branch is not managed well by more senior managers: this proportion being rather higher for the commercial banks (69%) compared to the RRBs (50%).

Nearly a third of the managers feel that higher management has a negative perception of their particular rural bank branch. Here, two views on the approach of their own managers were

prominent: (a) that their managers expect more and more business, and (b) that their managers have a top-down management approach e.g. nowadays managers only shout...*it is a numbers based relationship...I am viewed as a criminal because of high non-performing assets* are examples of managers' own feelings in this respect. This is a particular problem where there is a legacy of bad debts from previous managers.

### ***Incentive systems and assessment criteria***

In open comments following the attitude measurement questions a number of the managers expressed dissatisfaction with existing incentive systems and performance measure. One of the managers emphasised how difficult it is for the rural branches to do well when compared with their urban counterparts: *In rural areas it is difficult to fulfil targets and thus when we are compared to those in urban areas we look like failures...targets should not be the only criteria.* One of the RRB managers stressed how assessment criteria was a particular problem for this type of bank: *If you judge success by profits we are doing well, but this is leaving the upliftment angle alone. The reason for setting up the RRBs has been defeated, we are caught in an identity crisis where we are neither commercial nor development enterprises.* Moreover, existing incentives are felt to be inadequate. As one manager put it: *Only giving certificates helps no one, real financial rewards must be given. A pat on the back does not help.*

### ***Role of the Government***

There were many negative comments from the bank managers regarding Government of India (GOI) sponsored concessional credit schemes. One manager noted how traders immediately charge higher rates the moment they hear the word scheme, another stressed how the government needed to understand differences between rural areas and not implement a standard model, while another manager stressed the need for fewer schemes. Such schemes are also felt to impact negatively on client's attitudes. One manager noted how ... *Schemes spoil people's mentality. Even when they are capable of returning money, they do not.* Similarly another manager believed ...*You should stop this subsidy approach that corrupts the borrower.* However, for this manager, it seems that it is the subsidy approach that is the problem rather than a cheap interest policy as such. One of the bank managers noted how ...*Local leaders tell them that government money is like father's money.*

In discussing the characteristics of a successful rural bank branch over half the bank managers emphasised the need to reduce government interference, to reduce the frequency in policy changes, and to reduce corruption. When asked how their work could be made easier comments included reducing the number of government agencies involved and help with co-ordination between these agencies. A number of the branch managers stressed that those government officials sanctioning loans should also be accountable for the loans.

However, views towards the government were not entirely negative. Nearly a third of the branch managers expressed the need for government help in achieving a successful branch, mainly in terms of help needed with loan recovery and in developing the local infrastructure.

## **Reactions to Preliminary Findings**

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In January 2002 the research team held two workshops in the Reserve Bank of India office in Bhopal. The first workshop gave the District Collectors from the three Districts and also district level Lead Bank Officers the opportunity to hear of our preliminary findings and to express their own opinions on the emerging results. The second workshop gave a similar opportunity to Senior Officials from RBI and NABARD, State level Banking officials from



the Zonal and Regional Offices of Commercial Banks, and Chairmen of Regional Rural Banks.

At that stage only a preliminary analysis of the Bank Managers' profile and attitudes had been made, and we were only able to present some examples of verbatim comments from the qualitative work. Even so, the workshops provided a useful opportunity to hear stakeholders' views on the veracity of the findings (discussed in this section of the paper) and to also hear stakeholders' views on the policy implications of the findings (included in the next section of the paper).

In their reactions to the preliminary findings the district officials tended to focus on the Branch Managers' towards local context and also had some interesting observations to make regarding length of service of managers and why this affected their views.

Views of the District Officials themselves varied. One official felt that district of posting had no influence on attitudes as branch managers are moved around, and made the interesting point that in his view a manager transferred from a rural area to an urban branch would give even worse service to the urban poor compared to the rural poor. The officer in charge of Datia, the District where managers had the most negative attitudes, recognised that this District was very distant, not so approachable, more feudal in character, and when posted here some Branch Managers kept families in neighbouring District Towns because the facilities in Datia town were themselves rather limited. Views of the district officials also varied regarding the effects of commuting on the attitudes of bank staff. While one official felt that commuting to the branch did not impact negatively on the managers' role, another official felt it was difficult for such managers to gain the "*faith*" of the villagers.

We have noted how years of service does impact negatively on the branch manager's overall attitudes and their views towards rural contexts. Those managers with less than 15 years of service are more negative. The group 25 years plus of service are also more negative than the group having 15 to 25 years of service although this latter is not statistically significant. In this respect the District officials noted that for the younger managers ambition is not related to welfare objectives, these officers belong to an era of a market oriented economy not a state driven economy. It was also pointed out that the older managers are more risk averse as they have previously worked in Regional and Zonal offices and may have relatively little experience of taking lending decisions. The District Officials also pointed out that the older branch managers not only face the problem of their children's education, but they also often have to look after ageing parents and this can be an additional "family" problem with a rural posting.

In the following workshop the reactions of the State level bank officials tended to focus much more on the views of the branch managers towards themselves and towards their organisation.

The senior bank officials felt promotion was a problem for all bank staff and was not just a problem for rural branch managers. However, it was recognised that if a rural branch manager could not achieve targets then this would adversely affect promotion prospects. It was mentioned that the narrowing of promotion avenues, especially in the post-reform period, was resulting in an increasing age profile of branch managers who found it increasingly difficult to shift children and parents to a rural posting.

The urban background of many branch managers was also recognised to be an issue with respect to rural postings. While nearly 65 per cent of public sector bank branches are located in rural and semi-urban branches, about 15 per cent of bank managers have a rural background. Many banks have discontinued the system of appointing agricultural finance officers and therefore officers with specialisation in other areas and with an urban background are of necessity being posted to rural areas. Although this should make it all the more important to ensure proper rotation of staff, given staff shortages, it was pointed out that it is difficult to move staff from rural areas within the stipulated time periods, and consequently, officers are moved from one rural posting to the next.

Where bank staff are from a metropolitan city it was reported they are even more reluctant to accept a rural posting. Such staff more often have working wives who will be unable to secure comparable employment in rural areas, and their children are more likely to be in good schools and colleges. Consequently, staff from metropolitan areas are likely to refuse transfers if posted to a rural area, and will take all kinds of medical leave if they are posted to rural areas.

Two more points were made regarding staffing at rural branch level. First, it was noted that promotees officers are generally more reluctant to take credit decisions compared to directly recruited officers, and it was felt that this explains the more negative attitudes of the former group of employees. Second, it was recognised that more staff are needed for rural branches, but at the same time, it was pointed out that this must be based on the business and profitability of the branch.

Here the conflict between development objectives and business objectives, so apparent in discussions with the branch managers, was also mentioned in the workshop discussions with their senior bosses. One of the senior bank officials pointed out that growth is the most important feature of any industry and recognised that for the branch managers there is a conflict between rural development and profits. As argued earlier such conflict is likely to be a major contributor to role ambiguity, in turn leading to low job satisfaction and motivation, and the experience of stress. But this conflict is also clearly felt at the corporate level. As one of the officials present put it “*why should I put good staff in such a place with limited business potential?*”

As for their interaction with staff they have posted to rural areas, the senior bank officials were not too happy with the *verbatim* comments of rural staff criticising their top-down management approach. As one official put it “*We do shout if things go wrong, but we also pat on the back if things move.*” However, as we have seen the rural branch managers think more is needed than a pat on the back and this brings us to the policy implications of the research findings.

### **Policy Implications of the Findings**

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At the conclusion of the second workshop in India, a broad consensus was reached between the research team and the senior bankers present that the following policy and operational areas needed further investigation. While some of these needs could be addressed by the Commercial Banks themselves others would require consideration by the Central Bank (Reserve Bank of India).

The issues requiring Reserve Bank of India consideration include a re-look at the service area allocations, rationalisation of the rural branch network, and de-regulation of interest rates on

loans below Rs2lakhs (£3,000 approx.). It was argued by representatives of some Commercial Banks that part of the inhibition to providing financial services to the poor lay in the fact that the interest rates were not able to cover all costs of such provision. Others were of the view that certain service areas, particularly those assigned to Regional Rural Banks (RRBs) were of limited potential and required to be re-considered. A view was also expressed that the rural branch network could be rationalised taking into consideration the potential for mobile units and satellite branches.

The bankers recounted that the major outflow of human resources following the implementation of the Voluntary Retirement Scheme (VRS) was largely from the rural branches. This raised issues of adequacy of staffing, further recruitment, training, and placement. As regards recruitment it was felt that the major issues related to the staffing of rural branches through local recruitment and the direct recruitment versus internal promotions. Some bankers pointed out that the local recruitment route had already been tried in the case of Regional Rural Banks (RRBs) where the evidence of success in the post-reform period was mixed. However, these mixed results may be due to the narrow geographical basis of such recruitment. This suggests that more effective recruitment of bank staff with a rural background may be facilitated by modifications to the present All-India nature of Commercial Bank recruitment.

However, as most of the managers of rural branches of Commercial Banks are likely to continue to be drawn from urban backgrounds, appropriate attitudinal and behavioural changes to post-recruitment orientation and periodic in-service training are likely to offer an important means of bringing about more positive outlooks and good client relations at the rural branch manager level. This is particularly important with respect to the new entrants to the banking system at the officer level, given evidence that negative attitudes are more prevalent among the more recent recruits.

The other area of concern at the Commercial Bank level relates to placement and postings. It was pointed out by a number of participants in the workshop that greater priority needs to be accorded to the staffing of rural branches in terms of human resources. On the other hand it was also argued that given the low potential, poor infrastructure and low credit absorption capacity of poorer rural areas, it was difficult to commit good staff to such areas.

This conflict between profit and development is a fundamental problem cutting across the banking system. On the one hand it raises issues regarding the role of the public and private sectors in promoting capital formation in rural areas. On the other hand it points to the need for Banks to develop innovative training interventions to sensitise their staff to the characteristics and needs of the rural poor, and to encourage the design and development of suitable products and services. A starting point would be to survey the extent to which innovative financial service provision to the poor is presently being undertaken by banks across India, to assess the impact of these on staff attitudes at various levels, and to consider the incorporation of such experiences in the training programmes for rural bank staff.

Other issues widely debated with respect to rural postings was whether these should be compulsory or optional, the frequency of transfers and the tenure at rural branches. While some participants felt that rural postings should be optional, the majority were of the view that, were this to be the case a large number of rural branches would remain unstaffed. However, an optional transfer policy has been experimented with in South India and it is

reported that the results have not been unsatisfactory. This merits further investigation for possible wider applicability in the Commercial Bank Sector.

Discussions with the branch managers, and feed-back from the workshop involving senior bank staff, highlighted that the performance appraisal systems continue to focus on deposit mobilisation with added emphasis on recovery performance, leaving little scope for recognising development related lending. There is a need for banks to re-visit the criteria by which rural branch managers are assessed in order to provide appropriate incentives for successful rural lending and poverty alleviation.

The nature of incentives suggested by bank managers covered a number of items, primarily relating to remuneration, facilities, and service related conditions. The present study suggests that existing incentive systems do not appear to have brought about widespread positive attitudes towards financial service provision to the rural poor. The implication is that incentive systems need to take greater account of attitudes and perceptions of rural branch managers towards the rural context, towards their clients, towards themselves and their situation, and towards their organisation.

## **Conclusion**

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This paper has been concerned with one particular aspect of financial exclusion: the constraining influence of bank staff attitudes on the provision of financial services to the rural poor. Although the paper has focused on the attitudes of rural bank managers within three districts in one State in India, it is believed that the approach and findings have relevance to other countries with a banking sector expected to meet the financial service needs of a poor rural clientele.

The research has examined the attitudes of rural bank managers towards their professional role as providers of financial services to the rural poor. Through a combination of demographic branch manager profiles and attitude measurement, and a series of open-ended questions we explored their views of rural context, of rural clients, of themselves and their own situation, of their organisation, and of the interface with government agencies.

The profiles of the rural bank managers showed these staff to be largely from a non-rural and non-poor background. An average age of over forty years meant that family pressures militating against a rural posting came from two quarters: the pressures of securing good educational facilities for children and securing good health facilities for ageing parents. In the event, just over one third of the sixty branch managers lived in their village of posting with the remaining managers commuting an average of 25 kms on a daily basis. The great majority of the Commercial Bank branch managers are promotees who have risen from the clerical ranks, a number of whom feel unfairly treated in terms of rural postings and promotion compared to directly recruited officer staff. The sixty branch managers have served an average of twenty years with their bank, typically six years of which have been based in rural areas. The five years average of postings in rural areas for the Commercial Bank managers is over twice the stipulated period of two years. It is noticeable that the most prosperous and urban of the three districts has higher proportions of rural managers from an urban background, higher proportions of managers who are not from Scheduled Tribe and Scheduled Caste communities, and higher proportions of managers who have undertaken a greater number of training programmes.

A majority of the rural branch managers had overall negative attitudes, with increasing negativity associated with an urban background, posting in one particular District, fewer years of service (the group with less than 15 years of service) and a smaller number of training programmes undertaken. Their views towards rural context were also negatively associated by fewer years of service. Although in general terms the branch managers reported that they found rural life pleasant, two-thirds of the managers do not reside in the village of posting and nearly seventy per-cent of them agreed they would arrange to be posted to an urban branch if they could influence their superiors.

Rather more than half the branch managers believe lending to the rural poor carries high risk and nearly all of them associate the poor with high levels of loan diversion. These views, coupled with the post-reform emphasis on profitability, led a number of managers to indicate that they avoid providing credit to the poor. Even so, many managers emphasised the importance of good client relations and suggested a number of ways in which such relations could be promoted. A majority of branch managers believed that the best way to help the poor was by the provision of concessional credit, even though they recognised that such credit is then sought by non-target groups. The majority of managers also believed that the banks should provide direct financial services to the poor, rather than through intermediary organisations, but they were almost universally critical of the group lending approach.

Just over forty per cent of the managers were unhappy with their present career; issues relating to work pressure, continuous postings to rural areas, and the perceived better treatment of direct recruits compared to promotees were to the fore. Further reasons for dissatisfaction mentioned in connection with future career prospects included the lack of effective incentive systems, the lack of appropriate assessment systems for rural postings, and a general apprehension concerning downsizing and contraction in the banking sector.

Training has been identified as a key area. Although number of training inputs impacts positively on attitudes of bank managers, relatively few of the Commercial Bank managers reported they had received any rural training and many felt the training they had received was too theoretical and inappropriate for rural postings.

With respect to policy one conclusion is that changes to post-recruitment orientation and periodic in-service training offer an important means of bringing about more positive attitudes on the part of branch staff towards providing financial services to the rural poor. We noted that this is particularly important with respect to new entrants into the banking system at officer level. However, it is clear that training cannot work in isolation. Other issues raised by the branch managers concerning recruitment, placement, rural tenure, transfer, incentive and assessment systems need to be addressed. Incentive systems need to take account of attitudes and perceptions of rural branch managers towards the rural context, towards their clients, towards themselves and their situation, and towards their organisation.

A survey to document and assess innovative bank training programmes and incentive systems would help to identify those reforms mostly likely to bring about changes in attitudes, and help to address the dichotomy between profit and development evident at the branch and corporate levels.

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