

Research Report

Addressing Attitudinal Constraints in the Provision of Formal Financial Services for the Poor in Madhya Pradesh, India

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1.0 Background and Objectives

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.

Although the rural banking sector in India 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 of morale and enthusiasm of staff (Thorat, 1999).

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, with which this research has been concerned.

The objective of the research 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.

2.0 Methods

We viewed the project as an exploratory process enabling us to identify and understand key concerns regarding attitudes and behaviour of rural bank staff. 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.

The field research was conducted within three Districts in the State of Madhya Pradesh (MP) - a State with an extensive banking infrastructure and with relatively few financial service providers other than the banking system. The three districts, Betul, Datia and Indore vary greatly and were chosen to reflect the main socio-economic characteristics of MP (Research Methods: Map 1; Appendix 2: Table 4).

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). The sixty branches represented over half of the total number of rural bank branches for the three districts.

The data collection instrument used to obtain information from the branch managers was an interview schedule, which included attitude questions and open-ended questions. Answers to the open-ended questions raised prominent issues not earlier addressed in the attitude questions and demonstrated the usefulness of a qualitative approach in conjunction with

quantitative analysis. A copy of the interview schedule is given in Appendix 1. Details of the data analysis are given in Research Methods which follows this main report.

3.0 Findings

The findings of the research are given below in terms of:

- Profiles of Bank Branches and Branch Managers
- Overall Attitudes of Branch Managers
- Views towards Rural Context
- Views towards Poor Clients
- Views towards Themselves and their Situation
- Views towards their Organisation and Government
- Reactions to the Preliminary Findings
- Policy Implications

3.1 Profile of Rural Bank Branches and Branch Managers

Profiles of the sample rural branches are shown in Appendix 2 (Table 5), with respect to all branches, and with respect to branches of Commercial Banks and branches of Regional Rural Banks. Key features to emerge included:

- Just over a quarter of the branches processed fewer than 50 vouchers (records of financial transactions) per day, indicating low levels of bank business;
- The average number of staff per branch was just two for the RRBs and four for the Commercial Bank Branches;
- The average distance of the rural bank branches from their district towns (and thus from facilities associated with towns) was 34kms.

Profiles of the managers in charge of the branches are given in Appendix 2 (Table 6). Key features to emerge included:

- The managers were all male, and predominantly from a non-rural background and non-poor family background;
- A low proportion of managers belonged to Scheduled Caste (SC) and Scheduled Tribe (ST) communities: two traditionally excluded communities in India;
- Nearly half the managers had three or more children;
- Only just over one third of the managers resided in the village to which they were posted even though it is now mandatory for managers to live in their village of posting;
- For those branch managers who commuted to their branches on a daily basis, the average length of the journey was 25kms;
- Almost all of the Commercial Bank managers (92 percent) were promotees who have risen from the ranks of clerical staff;
- The branch managers had 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.

3.2 Overall Attitudes of the Rural Bank Managers

The 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. The overall attitude scores for the managers ranged from -1.13 to 0.63, the mean being negative (- 0.10). As Figure 1 shows (Appendix 2) this mean represents substantially more than half, 60 percent of the branch managers having negative attitude mean scores. 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.

In order to discover which characteristics of managers might be associated with their overall attitude, a number of analyses were carried out (Appendix 2: Figs. 2,3,4,5). Amongst significant findings, the following were of particular interest:

- Rural branch managers with an **urban background** were more negative overall than both those with a semi-urban and those with a rural background
- The impact of the **rural context** was seen in the contrast between the more negative attitudes of managers in Datia (the least developed district) and the more positive attitudes of those in Indore (the most developed district);
- 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 than those with between 15 and 25 years service, while those with more than 25 years service seemed moderately negative;
- There was a positive correlation between the **number of trainings** taken by managers and their overall attitude score.

The means of the **subscale** scores for the groups of attitude items referring to '**rural context**', '**poor clients**', and '**themselves**' are shown in Research Methods (Table 1). Details of the subscale variables are also given in Research Methods (Table 2). Although views towards rural context are more negative than views towards clients and views of the branch managers towards themselves (Appendix 2: Fig. 6), particular sub-sets of questions revealed very negative views towards particular aspects of poor clients, and of themselves and their situation. In addition, the more open-ended sections of the Interview Schedule (Appendix 1: Sections C and D) gave the branch managers the opportunity to express their feelings in greater detail in all three areas. These are included in the relevant sections below.

3.3 Views of Rural Context

Those branch managers 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). Thus years of service impacts particularly upon views towards rural context (Appendix 2: Fig.7).

Combining the results from particular attitude questions and from open-ended comments, more specific views towards rural context included:

- Around two-thirds of the branch managers reported they found life in rural areas pleasant. 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”*;
- Such views vary with district of posting, however
- Many branch managers emphasised the importance of a prosperous service area, good infrastructure and good branch location for achieving a successful branch: *“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”*;
- 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 noted: *“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”*.

3.4 Views of Poor Clients

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; their views also appeared more negative than those of managers with rural backgrounds, but this was not a statistically significant effect (Appendix 2: Fig.8.). Thus within overall attitudes, it is their views of poor clients which seem particularly affected by the urban background of the managers.

3.4.1 Characteristics

- Nearly all the branch managers viewed the poor as having a contribution to make to the development of the Indian economy;
- However, just over half of these same managers viewed lending to the poor as high risk and nearly all branch managers associated the poor with high loan diversion;
- Views on risk and repayment can impact negatively on lending to the poor; one manager explained how *“recovery is such a big issue, 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 percent), better repayment (80 percent) and in terms of having greater skills in the development of new enterprises (62 percent);
- Even so, an even higher proportion of the managers (87 percent) 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 expressed in general terms but also in terms of clients who have a good knowledge of banking practices and procedures, and who are good repayers.

3.4.2 Client relations

- The bank managers argued that relations with clients do matter, and many of them (70 percent) 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;
- Good relations were also felt to be important within the branch as well as in 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.”*

3.4.3 Financial service needs

- Just over half of the branch managers (58 percent) thought that providing concessional credit was the best way to help 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;
- Nearly all of them (93 percent) 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;
- Problems identified in the implementation of group lending schemes mainly concerned issues relating to group formation, group maintenance, and the understanding of the group approach (at both local and corporate levels).

3.5 Views of Themselves and their Situation

Views of the managers towards themselves again reflected **district differences** – those in Datia were more negative than those in Indore. However, there were positive correlations between the manager’s views of themselves and both the **total number of trainings** they had received and, more specifically, the **number of rural trainings** received (Appendix 2: Figs. 9,10,11). Factor Analysis showed that the impact of job on themselves and their relations is related to whether the managers are Direct Recruits or Promotees. The Promotees are seen to be more negative than Direct Recruits (Appendix 2: Fig. 12).

3.5.1 Present and future career

- A quarter of the bank managers gave banking as their original career choice, and nearly all (88 percent) 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 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!”*
- 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 were 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”* ;

- The managers' views on their future careers were more negative. 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, and those in Datia expressed a stronger desire to be posted to an urban bank branch than managers in Indore (Appendix 2: Fig.13).

3.5.2 Training

- Although 56 of 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;
- However, 21 managers reported the training was not 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.

3.5.3 Resources

- A high proportion of the branch managers (72 percent) felt that the resources (staff, equipment, accommodation) available to do their work are not adequate;
- In open comments a quarter of the managers 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.

3.5.4 Posting

- A significant part of career dissatisfaction concerns issues relating to the posting of bank staff in rural branches;
- For a successful rural bank branch over a third of the managers argued for one or more of the following: that rural branch postings should not be compulsory nor treated as a punishment posting, they should not be for longer than two years and they should be linked to promotion. In addition, one manager noted that: *"the bank has no analytical system on whom/how many of us have been posted to rural areas."*

3.5.5 Family

- Fifty-two of the sixty branch managers think a rural posting seriously disrupts the family life of a branch manager;
- Just over 60 per cent of the branch managers said their families' views of the rural posting were negative, largely due to the cost of double residences, little time for the home, and problems of education provision for the children.

3.5.6 Financial Service Provision

- A very high proportion of the managers thought that the banks should provide financial services to the poor directly, rather than through intermediary organisations;
- In addition, just over two-thirds of the managers thought it is possible for the banks to make a profit and at the same time help the poor. However, deciding which of these two objectives should be prioritised may be conflictual for the branch manager;

- Twenty-two of the sixty bank managers indicated 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”*.

3.6 Views of Their Organisation and Government

3.6.1 General management

- Nearly all the branch managers (87 percent) felt their higher authorities do not realise how difficult a rural bank manager’s job is, and just over two-thirds of the managers felt that their branch is not managed well by more senior managers, this proportion being rather higher for the commercial banks (69 percent) compared to the RRBs (50 percent);
- Nearly a third of the managers felt that higher management has a negative perception of their particular rural bank branch e.g. *“nowadays managers only shout...it is a numbers based relationship...I am viewed as a criminal because of high non-performing assets.”* This is a particular problem where there is a legacy of bad debts from previous managers.

3.6.2 Assessment criteria and incentive systems

- Dissatisfaction was expressed with existing performance measures: *“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 were 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”*;
- Existing incentives were felt to be inadequate: *“Only giving certificates helps no one, real financial rewards must be given. A pat on the back does not help.”*

3.6.3 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 clients’ attitudes. One manager noted how *“Schemes spoil people’s mentality. Even when they are capable of returning money, they do not”*, while another manager noted how *“Local leaders tell them that government money is like father’s money”*;
- In open comments, over half the bank managers emphasised the need to reduce government interference, to reduce the frequency in policy changes, and to reduce corruption;
- 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 local infrastructure.

3.7 Reactions to Preliminary Findings

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.

- Reactions of local officials to local context varied. The officer in charge of the District where managers had the most negative attitudes, recognised the particular problems associated with this District. Another 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;
- 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. Our own analysis shows that views on "Need of banking for the Poor" are negatively related to residing further than 25kms away from the village of posting (Appendix 2: Fig. 14);
- The district officials explained the more negative attitudes of branch managers with less than 15 years of service by noting that these managers belong to an era of a market driven economy, not a state driven economy, and that their ambition is not related to welfare objectives;
- It was pointed out that managers with more than 25 years of service not only face the problem of children's education in rural areas but also the problem of looking after ageing parents. It was also suggested "older" managers are more risk averse, having previously worked in Regional and Zonal offices;
- 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;
- 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. It was pointed out that, given staff shortages, 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 that they may be even more reluctant to accept a rural posting;
- The senior bank staff also noted that promotee officers are generally more reluctant to take credit decisions compared to directly recruited officers, and it was felt that this helps explain the more negative attitudes of the former group of employees;
- The conflict between development objectives and business objectives was also an issue for senior bank officials. As one of them 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, one official noted: "*We do shout if things go wrong, but we also pat on the back if things move.*" However, as suggested above, the rural branch managers think more is needed than a pat on the back .

3.8 Policy Implications of the Findings

Substantially more than half the managers were negative towards their work. Their overall attitude was related to their urban (vs.rural) background, to the development level of their district, to their years of service, and to the number of trainings they had taken. More specifically, the managers' views towards rural context were affected by years of service, their views towards poor clients by their urban background; their views towards themselves and their situation were likewise affected by district of posting, and by the number of total trainings and rural trainings they had received.

From the analysis of attitude scores and replies to open-ended questions, particular areas of concern for the rural branch managers were found to include the following:

- The importance of a “good” service area and good clients for the success of a rural bank branch;
- The relatively high risk associated with lending to poor clients;
- The need for concessional credit for the poor;
- The problems associated with government sponsored poverty alleviation schemes;
- Doubts about the group approach to lending;
- The conflict between profit and development;
- The perceived favourable treatment of direct recruits;
- The lack of appropriate rural posting and transfer systems;
- The lack of appropriate performance assessment and incentive systems;
- Inadequate resources;
- Inappropriate training methods and topics;
- Negative views of families towards a rural posting;
- Top-down management approaches and style.

In answer to some of these concerns, a broad consensus was reached between the research team and the senior bankers in the Bhopal workshop 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 review of the service area allocations;
- Rationalisation of the rural branch network;
- A re-look at the existing business model for rural lending e.g. consideration of a cluster approach to optimise use of scarce staff resources. In conjunction with appropriate training and incentives, this might also help to address the perceived conflict between profit and development;
- Possible de-regulation of interest rates on loans below Rs2lakhs (£3,000 approx.). Some Commercial Bank representatives argued that, in providing financial services to the poor, the fact that the interest rates were not sufficient to cover all costs of such provision, was an inhibiting factor.

The issues requiring consideration by the Commercial Banks, in conjunction with the RBI and the Government of India include:

- Recruitment in relation to local (rural) recruitment, and direct recruitment versus internal promotions;
- Appropriate attitudinal and behavioural inputs to post-recruitment orientation and periodic in-service training, particularly important for new entrants to the banking system;
- Rural posting (compulsory/optional) and transfer systems (tenure and frequency), ensuring these are implemented in a non-negative discriminatory way;
- Performance assessment and incentive systems for rural postings, to ensure these are not simply regarded as 'punishment postings';
- A clearly conceptualised and coherent set of role expectations that can be communicated to branch managers.

One clear finding is the positive influence training can have on attitudes of rural branch managers, particularly with respect to attitudes towards themselves and their situation. Relatively few of the Commercial Bank branch managers had received rural specific training, and overall, there were a number of criticisms made of existing training provision. A review of training inputs and development of new training practices, particularly for the Commercial Bank staff, would seem to be an important area for future investigation.

It is important to recognise that any policy changes would build upon some positive attitudes and not just try to change negative attitudes. Almost all of the rural branch managers believed their work is vital for the success of their bank and only a few of them expressed dissatisfaction with their original career choice. Most of them agreed that the rural poor can make an important contribution to the development of the country, and they not only argued that client relations do matter but also made suggestions as to how such relations could be improved. Moreover, they believed that the banks have an important role to play in providing direct financial services to the poor.

During the course of the research in Madhya Pradesh, the research team became aware of recent innovative bank practices in other parts of India. For example, an optional transfer policy has been experimented with by one of the banks in South India, and another Commercial Bank has opened dedicated microfinance branches in rural areas in Rajasthan and Uttar Pradesh. It appears that such initiatives have been taken by the smaller banking institutions in the country. An important research task would be to document the practice and experience of introducing microfinance for the rural poor within the banking sector in India, and to assess the potential for wider applicability within the Commercial Banking Sector. It would also be of interest to assess the impact of such innovations on the attitudes of staff at all levels. These experiences could be incorporated within the training programmes for rural bank staff and go some way to help address the dichotomy between profit and development evident at the branch and corporate levels.

4.0 Dissemination

Dissemination of the research objectives and findings has so far been through workshops in the UK and in India, by the incorporation of research methods and findings into course work material, and through the presentation of a conference paper.

The first workshop was held at The University of Reading in July 2001. The objective of the workshop was to seek comment on the objectives and proposed methodology for the research. Participants at the workshop included representatives from the University of Reading (Departments of International and Rural Development, Psychology, Agricultural and Food Economics, Economics), the Overseas Development Institute, Consultancy Organisations, and the Reserve Bank of India. Following comments received at the Reading workshop, research methods were refined and a draft Interview Schedule designed for pre-testing.

A second workshop was held in Bhopal in August 2001. The objective of this workshop was to invite comment on the objectives and proposed methodologies of the research from participants representing a wide range of organisations involved in rural finance in Madhya Pradesh. The workshop was chaired by the Regional Director for the Reserve Bank of India, Madhya Pradesh, Representatives from Commercial Banks and Grameen Banks in MP attended, as did a representative from NABARD and the Director, Directorate of Institutional Finance for the State.

In January 2002, two further workshops were held in the Reserve Bank of India office in Bhopal. The objectives of both workshops were to seek feedback on the results emerging from the field research. The first workshop was attended by the District Collectors from the three sample districts and also the Lead Bank Officers from these districts. The second workshop was attended by senior officials from the Reserve Bank of India and NABARD, State level Banking officials from the Zonal and Regional Offices of Commercial Banks, and Chairmen of Regional Rural Banks. An interview with the RBI representative on the research team was broadcast on National Television, and a press interview with reporters from National and State level newspapers was conducted.

At the University of Reading Howard Jones has incorporated aspects of the research into his teaching on Microenterprise Finance, and Marylin Williams refers to the findings in her teaching on occupational psychology.

A paper titled “Attitudes of Rural Branch Managers in Madhya Pradesh, India, towards their Role as Providers of Financial Services to the Poor” was presented at the conference on Finance For Growth and Poverty Reduction, University of Manchester, 10-12 April, 2002.

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* For a full list of references see the paper presented at the University of Manchester, April 2002.

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