20. Some comments and reflections on the ADATS programme - Dirk van Esbroeck (18 Aug 2000)

1. INTRODUCTION

The reflections presented hereafter are based on a rather quick and superficial assessment of the ADATS programme, which was conducted in the framework of the EC NGO-study /evaluation. As they are quite specific, they will not be integrated in the study/evaluation report that has another focus. They should be mainly considered as a contribution to enhance reflection among ADATS Staff and the members of the people's structures.

Hereafter I will focus on two particular issues, the Coolie Credit Fund (CCF) and ADATS' institutional and personnel policy. As promised to the ADATS leadership, I attach as well a short technical note containing some indicators to monitor the performance of credit programmes.

2. THE COOLIE CREDIT FUND

- The CCF is a credit fund that has been set up and run in entire isolation from the existing financial landscape in India. The choice for such a set-up should be viewed against the situation prevailing at the moment of its creation (mid '80s). By that time most NGOs opted, indeed, for the creation of financial institutions and mechanisms that were separated from the existing financial system. Moreover, ADATS' choice can be understood in view of the situation related to government credit programmes in South India by that time, which were often characterised by political interference, clientelism and financial indiscipline.
- We think however that the moment has come to review the policy with regard to loan delivery, and this for different reasons. Indeed, the present system has some important weaknesses which are either inherent to the system (a), either caused by its isolation from the outside world (b). These weaknesses are shortly described hereafter:
- (a) Inherent weaknesses:
    - The CCF concept is not really compatible with the 4-phase approach ADATS has developed, which allows a gradual strengthening of the Coolie Sanghas and clearly defines roles and responsibilities of both the Sanghas and ADATS.
    - As a consequence, there is no phased approach and no gradual built up of experiences both at the individual and the CSU levels with regard to the management of credit funds.
    - The provision of CCF funds implies that the Coolie Sangha Members (and ADATS) do not need to develop other mechanisms of capital build up (at least no capital to be used for loan provision, the Sangha Tax being used for other purposes). Experiences elsewhere indicate that building up sustainable local financial institutions with entirely outside funds is always very difficult. In other words, only by ensuring mechanisms of local capital built up the necessary sense of ownership and commitment is created.
    - ADATS continues to play a key role in the management of the CCF; all transactions are centrally recorded and part of the responsibilities is removed from the local level. The Sangha Members and leadership is in a certain sense depowered.

  - There is a lack of advice and guidance with regard to the dangers and potential of particular economic undertakings for which loans are granted. Considering the (economically) constraining environment in which ADATS works, too much "one purpose" loans with a high degree of risk are granted to people who have no experience of managing relatively big amounts of money. Part of the Overdue can be explained by such careless loan approvals.
  - The follow-up of defaulters is not well designed; there is a lack of a differentiated approach towards defaulters (defaulters that are unwilling to pay should be treated differently from those who are unable to pay).
- (b) Weaknesses related to the lack of integration of the CCF system:
  - The present "interest" system (10% up-front payment) is good as such but prevents the Coolie Sanghas to familiarise and liaise with outside financial institutions. It is bad in the sense that the real interest people pay varies heavily from one case to another (depending on the loan period). As such, it can lead to a wrong impression about the cost of money among the Sangha Members.
  - As the capital needs are catered for via foreign funds, existing funding sources in India are insufficiently used and an important part of the programme funds is absorbed by CCF.
- Some suggestions for improvement:
  - Redesign the CCF approach, thereby taking into account the development stage of each Coolie Sangha; use a gradual approach that defines increasing responsibilities for the Sangha, in line with the four-phase approach.
  - Decentralise the system to a maximum extent. Do not place roles and functions at the central level that can be taken up by the Sanghas themselves (even if this implies considerable investments in training of Sangha members and/or local leaders). I think a viable system can be designed in which all administrative records are kept at the local level; in addition, a centrally run data system can be maintained, but only for global monitoring purposes.
  - Consider seriously the set up of a savings mechanism. Experiences elsewhere demonstrate that savings are an important support for the group building process. Moreover, savings can also be used ad a "private safety net" and a guarantee in case of loan default. Further, on the medium term savings will diminish the external capital needs and, as such, allow the use of the CCF capital for other purposes. Last but not least, savings contribute to the empowerment of the Coolie Sangha members.
  - Try to liaise good functioning Coolie Sanghas with existing loan programmes or directly with local banks for additional loan demands.
  - Assist groups in decisions on loan provision. Develop so-called multi-purpose loans whereby the loan amount is used for several small economic undertakings (risk diversification).

3. COMMENTS ON ADATS' PERSONNEL / INSTITUTIONAL POLICY

The following are a few comments on particular aspects of ADATS personnel and institutional policy.

I consider ADATS personnel policy as too strict and not realistic at some points. I have also doubts whether some points are shared by a majority of the staff; this should preferably be tested via an independent assessment. The following points should in my view be reflected upon because they are affecting the institutional sustainability of ADATS:

- The rule that husband and wife cannot work jointly in ADATS. Experiences in many places demonstrate that such a specific situation can be effectively dealt with, provided that some rules are taken into account. The fact that ADATS now accepts already that a married couple can stay when they marry after joining ADATS and that this has not led to difficulties, is a good illustration of ADATS' capacity to manage such a situation.
- Restrictions on schooling opportunities for children of the staff. I understand the rationale behind this rule, but find it very questionable. Our children are our future. Children of committed NGO workers share often the same values as their parents. Many of them might go for careers in the same direction. They will be able to do so better when having had the opportunity to study at schools of good quality.

4. SOME INDICATORS TO MONITOR THE QUALITY OF CREDIT PROGRAMMES

The indicators presented hereafter focus on the financial aspects only of the quality of credit programmes. As such, they provide by no means a sufficient basis for a comprehensive assessment of the quality of a credit programme; for instance, they do not provide an indication on the impact of the credit programme on the decrease of poverty, employment creation, empowerment, etc.

Financial ratios have been developed to assess the following key issues:

- the quality of the loan portfolio;
- the efficiency of the credit programme;
- the financial viability of the credit programme.

4.1. Indicators of the quality of the loan portfolio

The loan portfolio consists of all outstanding loans at a particular moment in time. It is important to have an idea on the *quality* of the outstanding loans, i.e. the degree to which these outstanding loans are "good" loans (will be repaid on time). The following ratios can be used in this regard:

- The so-called "exposed portfolio rate" is the major indicator and tells us which part of the loan portfolio is "contaminated" (= loans that are not performing according to the rules); in case of a good programme, the "exposed portfolio rate" should not exceed 15 %. Note that some organisations consider a payment as "overdue" only 30 days after the latest date repayment should have been made.

$$\frac{\text{outstanding balance of all loans with one or more overdue payments}}{\text{current portfolio}}$$

- The "delinquency rate" is similar to the previous indicator but focuses only on that part of the loans that is overdue.

$$\frac{\text{amount of the overdue payments}}{\text{current portfolio}}$$

- The so-called "recovery rate" indicates the relationship between the loan amount effectively repaid and the total amount that should have been repaid in a certain period. This indicator is used often by NGOs involved in credit and savings programmes. It is a useful indicator during the early years of a programme, but not when the programme lasts already for a long period. In the last case, it will provide few indications on the performance of the outstanding loan portfolio.

$$\frac{\text{repayments received during a certain period}}{\text{repayments that had to be received during the same period}}$$

- The "loan loss rate" indicates that part of the loan portfolio that can not be recovered. It is an interesting ratio, which is however difficult to calculate as the loan losses must be applied to the portfolio from which those losses arose. If for, instance, a loan is declared as lost after 1 year and maximum duration of a loan is 1 year, then, for 1998, the present loan loss rate for 1998 is:

$$\frac{\text{amount of loans granted in 1998 and not repaid (unrecoverable)}}{\text{total amount of loans granted in 1998}}$$

This ratio can never be higher than 4 % in a good credit programme.

4.2. Indicators on the Efficiency and Financial Viability of a Credit Programme

Most of the indicators presented hereafter are difficult to apply in the context of ADATS because the credit programme is not clearly separated from the other programme components. I provide nevertheless this information because I think that with some creativity similar indicators can be developed.

- The following indicators have been developed to indicate the "productivity" of the personnel involved in the programme:

$$\frac{\text{total amount of active borrowers}}{\text{total amount of personnel involved in the overall programme}}$$

$$\frac{\text{total amount of active borrowers}}{\text{total amount of personnel involved in the credit component}}$$

$$\frac{\text{number of outstanding loans}}{\text{total amount of personnel involved in the credit component}}$$

$$\frac{\text{amount of outstanding loans}}{\text{total amount of personnel involved in the credit component}}$$

- In specialised micro-credit programmes, one credit agent usually handles between 250 and 400 loans. It is often said that the amount of outstanding loans per credit agent should be around 100,000 \$, but I have seen viable many programmes where this target is not met.
- The following indicators are of a rather financial nature:

$$\frac{\text{amount of operational expenses during one year}}{\text{average amount of outstanding loans during the same year}}$$

$$\frac{\text{amount of personnel expenses during one year}}{\text{average amount of outstanding loans during the same year}}$$

- Usually 3 levels of financial viability are distinguished:

- Level 1: the programme succeeds in covering its operational expenses:

  Income from lending business > Personnel + other administrative expenses

- Level2: the programme is able to cover additional expenses such as loan charge-offs (for bad loans) and actual capital costs (interests paid)

  Income from lending business > Personnel + other administrative expenses + loan charge offs + actual capital costs

- Level 3: the programme is on top able to cover the opportunity costs of the capital; only in this situation can an institution be regarded as financially viable

  Income from lending business > Personnel + other administrative expenses + loan charge offs + actual capital costs + opportunity costs of capital