

# For business-led inclusive growth

## Banks can play a big role if they understand the dynamics of deprivation



**TAMAL SARKAR**

GOVERNMENT or-  
ganisations (GOs)  
and non-govern-  
ment organisations  
(NGOs) are recog-  
nised and pro-  
moted as best  
suited for develop-  
ment manage-  
ment—be it in-  
come generation or  
capability creation,  
especially for

poverty-stricken household or micro units. There are a few points here to note. First, in the absence of direct involvement of an institution in promoting income generation, community stakeholders often perceive pure capability development as a free service. Second, stakeholders are keener on partnering with institutions that can offer direct market opportunities apart from capability creation. Thus, in the field of income generation, institutions like Ahmedabad-based Sewa and Dastkar have an edge over GOs/NGOs that only impart skills. This is more so for micro and poverty-intensive enterprises, which can least afford to either scout for various support services (due to high transaction costs) or spend time in organising themselves only to see their efforts get diluted on account of inadequate market promotion. Third, income generation gets priority over capability creation in rural development, and this boosts the process of getting organised. This happens faster if there are income possibili-

ties, either based on the organisation's track record or nature of activity.

Fourth, developmental enterprises are already at equilibrium, and they deploy their resources seriously only for significant changes that promise a substantial difference in outcome. There is a serious shortage of such multi-purpose development institutions.

Here, the role of banking/quasi-banking (that is, microfinance) institutions is of critical importance. First, being in finance, banking institutions under-

stand business better than many NGOs and GOs. Second, the involvement of banking (type) units attaches a brand to the process of business delivery, which is vital at this point of inflection—as tiny units take their first steps towards big/serious businesses. Third, it is recognised that micro-credit (for both business and consumption) is a serious business opportunity in India, with its demand pegged at an estimated annual Rs 130,000 crore (including consumption loans). This is a sizeable figure by any yardstick.

While it is encouraging that banks are flush with funds for this purpose, the challenge is that this potentially huge market is not ready to "shoot" in terms of absorption of such finance. Hence, development of such finance, hence, despite the supply ease, there are natural constraints on potential demand. Thus, there is a critical gap in terms of invest-

ment required for preparing this market for loan absorption as well as for smooth repaying capacity thereafter. Clearly, this is a non-business element, and the moot point is whether this can be converted into a business plan for the entry of the vast network of banking or quasi-banking enterprises into development by promoting business first.

Well, one thing is for sure, and that is the natural propensity of business units to first achieve business growth and then go for the necessary capability creation to sustain this growth. Here, the innovative business agenda of banks would help. They also have the advantage of linkages to a host of business units that can be signed on as appropriate value-chain partners for the promotion of these units. Banks can also promote various specialised service providers.

Again, it is but natural that when a particular bank branch thinks in terms of providing such services, it makes sense to concentrate on one or few products in that region (say, micro/artisan clusters). But during the process of such development, we must assess 'efficiency' as much as the likelihood of taking 'equity' along. We must especially track the involvement of the poorest units, which are capable but are either undernourished or inactive in their response to market needs (unable, that is, to change their current 'low

level equilibrium'). External value chain partners are not likely to make special efforts to address such non-market issues. If local NGOs become part of the local power structure that is tilted against the most deprived (as is the case at times), then they too are constrained in their ability to address this issue. As a result, relative poverty could worsen—with severe social repercussions.

In sum, we find that in income generation activities, financial/quasi-financial institutions score a point over at least a section of the traditional engines of development management, and can certainly be an alternate channel. However, while promoting such business-led growth of micro/poverty-intensive units in clusters, there are some non-market phenomena that must not be ignored. These include (a) demand generation through linkage creation and (b) ensuring long-run equity as an integrated process through the same institutional mechanism that promotes business. This will ensure low delivery cost and cross-learning. It is here that public development funds must support the banking/quasi-banking system in the promotion of genuinely inclusive market-led growth. This would include support for smart, impartial growth managers who can be put in charge of systems designed to ensure inclusive growth through startup funds, training and other efforts.

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