

# AN EXPLORATORY STUDY ON TRADITIONAL FINANCIAL INSTITUTIONS OF LOWER ASSAM

Prof. Abhijit Sharma



Centre for Microfinance Research  
Bankers' Institute of Rural Development  
&  
Indian Institute of Bank Management,  
Guwahati



## *Acknowledgements*

*The study would not see the light of the day without the constant guidance, advice and help from different people from various walk of life.*

*This work was possible only due to the unstinted support received from Main Centre of CMR at BIRD. Without their constant inputs and also having immense patience for the delay it would have been very difficult to complete this difficult work. Shri C.C.Mitra, Director, IIBM has also been a pillar of strength and support at the various stages of the study.*

*The research team consisting of Shri Dipankaj Mazumder, Shri Amlan Sharma, Shri Dipankar Boruah, Shri Asikur Hillali, Shri Prafulla Leo, Shri Rupam Rajbonshi, Shri Gobinda Sarma and Shri Rana Rajbonshi. Special thanks to Shri Dipankaj Mazumder for leading the field team and also eliciting the data in a comprehensive manner. Shri Dipankar Barua also contributed immensely in the compilation and analysis of the data.*

*Ms. Sikha Borthakur, Secretarial Assistant at IIBM provided excellent support in typing the report quickly and with very little errors.*

*Lastly, we would like to thank IIBM staff and Faculty for guiding and providing the external support to the study.*

*Abhijit Sharma,  
Researcher,  
CMR-IIBM,  
Guwahati.*

# CONTENTS

		<b>Page No</b>
	<i>List of Tables</i>	
	<i>List of Figures</i>	
	<i>List of Annexure</i>	
	<i>List of Appendix</i>	
	<i>Abbreviations</i>	
	 <i>Executive Summary</i>	 <b>10</b>
<b>Chapter 1:</b>	<b>Introduction</b>	<b>17</b>
	1.1 Objectives of the Study	20
	1.2 The Study Area	21
	1.3 The Research Questions	21
	1.4 Methodology	22
<b>Chapter 2:</b>	<b>Economic Profile &amp; Status Of Formal Banking In The Study Area</b>	
	2.1 Background	28
	2.2 Socio-Economic Profile of the Study Region	29
	2.3 Social Indicators	35
	2.4 Exclusion from Formal Banking Channels	36
<b>Chapter 3:</b>	<b>The Nature Of Demand Of Financial Services In Study Area</b>	
	3.1 Introduction	41
	3.2 Life Cycle Needs	45
	3.3 Seasonality pattern of financial requirement of rural household	48
	3.4 Conclusions	51

<b>Chapter 4:</b>	<b>The Outreach, Scale And Scope Of Community Based Institutions</b>	
4.1	The Financial Landscape of the study area	52
4.2	Usages of Financial Services	53
4.3	Outreach - Savings	58
4.4	Outreach - Credit	65
4.5	Scale	68
4.6	Attributes that makes Xonchois popular	72
4.7	Conclusion	76
<b>Chapter 5:</b>	<b>Xonchois- Characteristic And Significance</b>	
5.1	Density	79
5.2	Size	80
5.3	Gender composition of members	82
5.4	Tenureship and the Complementary nature of <i>Xonchois</i>	83
5.5	Flexibility of the <i>Xonchois</i>	87
5.6	Sustainability of <i>Xonchois</i> – Some Governance and Management issues	89
5.7	Reasons for the spatial spread – some historical factors	91
5.8	Strengths of <i>Xonchois</i> over SHGs	93
5.9	Weakness of <i>Xonchois</i>	95
5.10	Conclusions	96
<b>Chapter 6:</b>	<b>Traditional Institutions- Characteristics and Significance</b>	
6.1	Introduction	97
6.2	A Brief description of the Traditional Institutions and Financial Performance	99
6.3	Features of Traditional Institutions and their strengths and weaknesses	111
6.4	Conclusions	112
<b>Chapter 7:</b>	<b>Conclusion And Recommendations</b>	
7.1	Conclusion	114
7.2	Traditional Institutions Involve In Pure Financial	115

	Services	
7.3	Traditional Institutions Involve Only Partly In Financial Services	118
7.4	Strengthening linkages between formal financial institutions and traditional informal institutions – Some thoughts	118

## LIST OF TABLES

Table No.	Titles	Page
1.1	Region-Wise extent of Financial Exclusion	
1.2	Distribution of samples	
1.3	Distribution of Samples of ASCAs	
1.4	Distribution of Samples of Traditional Institutions	
1.5	Persons covered under the PRA Exercises	
1.6	Description of the Toolkits and their purpose for use	
1.7	District-wise Distribution of PRA Toolkits	
2.1	Sectoral distribution of the economy of the state	
2.2	Demographic profile of the study area	
2.3	District-wise and Sector wise distribution of the economy	
2.4	Distribution of workers for different regions of Assam	
2.5	Male & female proportion of workers for different regions	
2.6	Infant Mortality Rate	
3.1	Number of households reporting cash loans outstanding as on 30.06.02 per 1000 households over credit agency for each household assets holding class	
3.2	Proportion of rural households using various non-institutional sources	
3.3	Average loan size per rural household by asset class in Assam and India	
3.4	Percentage distribution of loans by purpose in Assam and India	
4.1	District-Wise Saving A/Cs in different institutions	
4.2	Saving A/cs per 100 Households across the districts	
4.3	Income category-wise usage of financial services	
4.4	Proportion of households having saving accounts in different institutions	

- 4.5 Frequency of Use of Savings A/C by HH in different Institutions
- 4.6 District-Wise Credit accounts in different institutions
- 4.7 No: of Credit A/Cs per 100 HHs
- 4.8 Indebtedness of HHs to different institutions
- 4.9 Results of the Linear Regression between use of Money lender and *Xonchoi* for credit requirements by households
- 4.10 Average amount of household savings in different institutions by income category
- 4.11 Income wise distribution of share of savings of households in different institutions
- 4.12 District wise Share of Institution Savings Amount in Households
- 4.13 Institutional preferences of rural households based on attributes related to savings
- 5.1 Gender-wise distribution of average loan outstanding per *Xonchoi*
- 5.2 Trend of Idle Cash in a Short Term *Xonchoi*
- 5.3 District-Wise distribution of *Xonchois* as per their Terms
- 5.4 Results of the Linear Regression between the density of *Xonchois* and presence of the Zamindari system
- 6.1 Number of members in these institutions
- 6.2 Some basic profile of the *Kuchis*
- 6.3 Financial Details of *Kuchis* as on September 2009
- 6.4 Lending details of *Kuchis* as on September 2009
- 6.5 Basic profile of *Namghar Committees*
- 6.6 Financial details of *Namghar Committees* (Data as on Sep 2009)
- 6.7 Assets and Liabilities of the *Namghar Committees* (data as on Sep 09)
- 6.8 Lending details of *Namghar committee* (Data as on September 2009)
- 6.9 Basic profile of *Dong Committees*
- 6.10 Financial Details of *Dong Committee*: (Data as on Oct. 2009)
- 6.11 Financial Details of *Dongs*: (Data as on Oct. 2009)
- 6.12 Lending details of *Dong Committee*
- 6.13 Basic profile of *Ayoti Committees*
- 6.14 Financial details of *Ayoti committees*: (Data as on Sep2009)
- 6.15 Loan details of *Ayoti Committees* (Data as on September 2009)

6.16 Basic profile of *Bhoral Committee*

## **LIST OF FIGURES**

6.17 Basic profile of *Gramdani Raiz Committee*

Figure No.	Titles	Page No.
1.1	Figure showing the study area with the districts	
1.2	Figure showing the districts	
1.3	Distribution of different communities	
1.4	Distribution of villages in the districts	
2.1	Map showing density of the population, 2008	
2.2	Trends of Decadal growth of Population	
2.3	Per Capita Income at constant prices, 2005-06	
2.4	Assam, Human Development Index 2002	
2.5	Assam, Urbanization Rate 2001	
2.6	Literacy Rate	
2.7	Map showing average population per branch	
2.8	Graph showing the AAPBO for rural areas in Assam, 2008	
2.9	Per Capita Deposits	
2.10	Map showing distribution of Per Capita Credit	
2.11	Map showing savings accounts per 100 adult population	
2.12	Map showing credit accounts per 100 adult population	
2.13	Distribution of rural HHs availing banking services, 2001	
3.1	Life Cycle Lump sum needs of Rural Household	
3.2	Seasonality Trends of Income, Expenditure, Savings and Credit	
4.1	Usages of sources for savings by different categories of clients	
4.2	Growth rate of Savings, current and Term deposits of banks in Assam	
4.3	Preferences for Savings Product Attributes by Rural Households	
5.1	Average membership in <i>Xonchois</i> per 100 households	
5.2	Area of operation of <i>Xonchois</i>	
5.3	Average size of <i>Xonchois</i> in terms of numbers of members	
5.4	Gender Composition of the members	
5.5	Tenurship of <i>Xonchois</i>	
5.6	District-wise distribution of <b>tenureship</b> of <i>Xonchois</i>	
5.7	District-wise distribution of savings product of <i>Xonchois</i>	

- 5.8 Contribution of amount of members in *Xonchois*
- 5.9 District-wise distribution of *Xonchois* as per their product types
- 7.1 Types of Traditional Institutions

## LIST OF ANNEXURE

<b>Annexure No.</b>	<b>Title</b>
Annexure I	Village Profile of the 6 Studied Districts
Annexure II	Household Survey Questionnaire for the study
Annexure III	Institution Survey Questionnaire for the study
Annexure IV	Special Institution Survey Questionnaire for the study
Annexure V	Seasonality Pattern of Different Community from the Six Studied Districts

## LIST OF APPENDIX

<b>Appendix No.</b>	<b>Title</b>
Appendix I	Monthly Chart of Accounts of a Typical <i>Xonchoi</i>
Appendix II	Case Study of a “Professional” <i>Xonchoi</i> Manager
Appendix III	Popularity of <i>Xonchois</i> in the Savings Market - Using the Marketing Framework to illustrate it
Appendix IV	Distribution of Special Institutions in the study region

## **ABBREVIATIONS**

APPBO	Average Population Per Branch Office
AIDIS	All India Debt and Investment Survey
ASCA	Associated Savings and Credit Associations
BSR	Basic Statistical Returns
CGAP	Consultative Group to Assist the Poor
DRDA	District Rural Development Agency
FSM	Financial Services Matrix
HH	House Holds
IMR	Infant Mortality Rate
LIC	Life Insurance Corporation
MFi	Micro Finance Institution
NBFC	Non Banking Financial Company
NGO	Non Government Organization
NREGA	National Rural Employment Guarantee Act
NSS	National Sample Survey
NSSO	National Sample Survey Organization
PRA	Participatory Rural Appraisal
RBI	Reserve Bank of India
RRB	Regional Rural banks
SGSY	Swarnjayanti Gram Swarojgar Yojana
SHG	Self Help Group

## **Executive Summary**

India has been growing rapidly for the past couple of decades. The growth rate is supposed to be one of the fastest in the world. This has led to an enormous growth in economy. However, there are vast areas, especially the rural areas, which are untouched by this growth. Inclusive growth has therefore become very important for the government to pursue vigorously. Financial Inclusion is an important tool for ensuring inclusive growth. Various approaches like expanding the SHG-Bank linkage Programme, Using technology for extending financial services, Using the BC-BF model amongst others has been pursued in expanding the financial outreach, especially in the remote areas like North East. However, given the diversity of the region and its hilly terrain, the progress has been slow and tedious. The region is also home to traditional institutions which are part of the community and are involved in governing and providing community services including financial services to its constituents. The potentiality of engaging with them and expanding outreach to the rural and remote areas is immense. The study therefore looks at these institutions closely so as to understand their processes and inform the formal sector either in developing linkages or modify products and processes in the latter. In order to capture the information more vividly, the study has restricted itself to looking at only six districts covering Lower Assam.

The study was conducted using both primary and secondary data. The primary survey covered samples from the households, traditional institutions, *Xonchois*<sup>1</sup>. Participatory Rural Appraisal Techniques were used to elicit responses on financial behaviour from households. The study area was confined to Lower Assam.

This area is the most economically backward region of Assam. It is also low in the Human Development indices. The picture is the same as regards the banking parameters. The branch network is sparser here than the other parts of the state. Consequently, it is also the most financially excluded area of the state. Except for the district of Kamrup which has the capital city of Guwahati, almost of the districts

---

<sup>1</sup> Traditional Groups offering savings and credit services to the rural households

shows very low savings and credit A/Cs per 100 adult population. Similarly, the per capita deposit mobilized or per capita credit disbursed is also very low. Thus, the financial exclusion is very high. The rural financial market is therefore dominated by the informal sector institutions, offering financial services to the area, especially the poor.

The credit markets of the study area is characterized by requirements which are small and mostly for household expenditure. The data also reveals that the Life Cycle lumpsum needs of households were mostly used for Diseases, Education for Children, Marriages, Social functions and House building and Repair. Besides the above, another set of requirements is generated from the seasonality of income and expenditure and the mismatch that occurs between them over the entire year. Given the lack of availability of financial instruments to meet their needs, they often seize opportunities available to them, mostly in the informal sector through either savings or credit. Whatever may be the product, the poor would use it only if it is flexible, reliable and convenient. It should be easily accessible with minimum transaction cost. Most of these set of requirements are fulfilled by the informal sector institutions and hence they dominate the rural financial landscapes in Lower Assam. Among the various informal institutions *Xonchois* are the most used informal institution. *Xonchois* are ASCAs (Accumulated Savings and Credit Associations) which are concentrated in the districts of Nalbari, Kamrup, Barpeta . ASCAs are commonly found in other parts of the world. In some parts of Africa it is also being actively promoted as Village Savings and Lending Associations in areas where they are absent so as to provide an option to the people living in these areas. In Nalbari, they are ubiquitous and cover as much as 90% of the households as compared to only 39.2% by banks and only 43.2% by SHGs. In terms of usage, *Xonchois* are used extensively by households. In Nalbari, on an average, 100 households have 481 saving accounts with these institutions as compared to 55 savings bank account for every 100 households. Similarly, SHGs have only 53 savings bank accounts for every 100 households. In other words, there are only 53 households which have membership in SHGs. Assuming 10 members per SHGs, there are 5.3 SHGs per

100 households. Despite its near absence in districts of Kokrajhar and Dhubri, the average saving accounts with these institutions were still at 162 for every 100 households as compared to only 68 bank accounts for every 100 households. Nearly, 70% of the all the savings accounts in Nalbari are in *Xonchois*. Only 8% of the savings accounts are in banks. Moreover, a large number of the savings account in banks are also dormant and very irregularly used (nearly 77%). In comparison, the *Xonchois* are used extensively (mostly on a monthly basis).

In terms of its depth, it is seen that it is used extensively by all the classes of households i.e. the rich, not-so-poor and the poor. Amongst the poor, there are 82 savings accounts per 100 households as compared to only 14 accounts in banks by them and 42 saving accounts with the SHGs. Despite the use of banking services by the rich, they still use *Xonchois* extensively. For instance, on an average the rich had 167 savings bank accounts for every 100 households compared to 332 savings accounts with *Xonchois* which is almost double. Similar is the case with credit accounts. In fact, it is so popular that in the districts of Nalbari and Kamrup that they have displaced the moneylender here. There is a strong correlation of the presence of *Xonchois* and the displacement of money lenders and it is significant at 99%.

Although the *Xonchois* break after a period and distribute the corpus as dividends and the SHGs do not do so, the average amount saved in the *Xonchois*, by the poor, are still much more than in the SHGs. Overall, the poor save much more in *Xonchois* than in the banks. Thus, the *Xonchois* are the most extensively used institutions for financial services by the rural households especially in the districts of Nalbari, Kamrup and Barpeta. They offer their services cutting across class, community and gender. In Nalbari, male groups are equally common as women groups. This makes them perhaps the most financially inclusive of the all the institutions including the SHGs.

*Xonchois* are popular amongst all segments primarily because of certain features which endear them to the people. They are looked upon as secured instruments as default rates has been low due to strong member control as all of them are either

their neighbours, friends and relatives. Similarly, high returns on their savings, easy, flexible and simple and friendly process, physical and perceptual proximity and loan facility integrated with savings are attributes that *Xonchois* rank very high as compared to banks or other financial intermediaries. All of these make it a financial institution which is used extensively by all classes of people and by all the communities in the districts.

The range of membership in *Xonchois* usually varies from 8 – 60. However, in the districts where they are concentrated, the sizes are much larger ranging from 20 -60. Although most of them consist of female members, in Nalbari, where it is concentrated, it is dominated by males suggesting that it also plays an important in economic activity.

*Xonchois*, by design, has fixed tenureship. This is their strength. However, *Xonchois* in the study area have extended their tenureship and thereby expanded the savings product range to seven different types of savings product - much more than a typical ASCA offers in other parts of the world. The households therefore have multiple memberships in them to avail the different benefits associated with them. In addition to savings they also offer credit. The multiple memberships are also to ensure that they have an access to a larger sum as and when they require it. They use the *Xonchois* as their credit card, drawing from it when required and replenishing back when they are in surplus. *Xonchois* are extremely flexible in their operations with contribution amounts varying based on the seasonality of income and expenditure. All of the above makes *Xonchois* a preferred institution to save and borrow money from.

In comparison with SHGs, *Xonchois* score higher in the following points.

Firstly, there are no start-up costs in *Xonchois*, as the norms and process are known to all the members; they therefore do not need to be trained in its operations. They leverage on the knowledge which is available. This is very unlike an SHG where large investments are needed in capacity building and training of members. Knowledge has to be transmitted from outside. This can be costly and hence

prohibitive. *Xonchois* on the other hand, because of its low costs can be started up by anyone with some members.

Secondly, *Xonchois* are easy to manage. The cash collected is disbursed every cycle, thus reducing the scope for fraud. The books are very simple (often just in a single sheet) and the accounting is kept within manageable limits as the group breaks after a fixed period and disburses the entire corpus. On the other hand, a large number of books have to be maintained in a SHG. This means that at least some members has to be trained in book keeping quite well for ensuring that the books are well maintained and updated. The absence of this has been a serious issue in the SHG management and consequently has lead to delinquency in them.

Thirdly, the benefits of *Xonchois* are clearly marked out. Members are aware of the date of termination of the *Xonchois* and the amounts that they are likely to get at the end of the term. This ensures members interest in the group and thus effective control. In an SHG however, since they do not have fixed tenureships, members cannot link the savings and the benefits from it. The fund generated is looked up as only a conduit to access loans from external agencies like banks. Once this is achieved, members gradually loose interest if the banks are not responsive enough in providing repeat loans. Consequently, the members drop out of the group and it defuncts.

Fourthly, *Xonchois* offer the households the flexibility to contribute more when there is surplus in the house and allows them to draw down from it when their cash position is tight. It also provides the access to the larger lumpsum when they need it. All of these ensure that *Xonchois* are viewed as essential coping mechanism and hence being part of it is very natural and also essential. The members in a SHG, however, save only small amounts and the inflexibility of its mechanism does not allow the households to use it effectively as an instrument of coping with their crisis and other needs. It therefore remains outside the 'financial ecosystem' of the household unlike the *Xonchois*.

There are however, two weaknesses in *Xonchois*. The over reliance on the manager could lead to problems especially in a group where most of the members are

illiterate. And in most of the cases, *Xonchois* are able to meet only the basic requirements of the households. They have mostly failed to meet long term savings needs or larger loans for production related needs etc.

Besides, the *Xonchois*, there are other types of traditional institutions which provide financial services only partially. These are village level institutions which provide community services to the community. They differ in scale and scope in different areas and within the different communities. These are fairly powerful and hence can censure individuals/households if they violate the norms of the group. They also provide financial services but in a limited manner and also to the most needy. They, therefore provide some sort of a social net to the most underprivileged and needy in the villages.

Traditional institutions therefore play a major role in the rural areas of the study area. Some of them, like the *Xonchois*, provide crucial financial services to households. They have an enviable outreach, surpassing all the other intermediaries including money lenders in their area of concentration. It is truly one of the most inclusive of all the financial institutions in the area. Their excellent track record due to their good governance and transparency ensured by strong member control makes it a highly trustworthy institution where the household can park their savings.

Some tentative suggestions for linkages of *Xonchois* with banks have been made. These suggestions however need to be taken up only after a detailed product development work including piloting is undertaken. The suggestions are as follows;

- i) A recurring deposit scheme for a longer term upto 7 yrs or so. This would help the members to build up a larger lumpsum which most of the *Xonchois* are currently not offering.
- ii) A term deposit (or fixed deposit) scheme for a period of 7 years or so. This product is also not being offered by most *Xonchois*.
- iii) A credit linkage for a larger amount with the *Xonchoi* offering a guarantee for its members. A part of the corpus of the group could also be kept as security by the banks till the closure of the loan.

For the other traditional institutions involved only partially with offering financial services, the role could be that of providing assistance to the banks as Business Facilitators. This could start initially with the *Dong Committees* of Bodo areas and the *Kuchis* of Barpeta.

However, the study also recommends a thorough change in the mechanism of communication between the two set of institution from two different worlds. The formal institutions are a product of the literate world and hence emphasize on text and documented records. The informal institutions on the other hand conducts most of its business orally. This ensures effective participation of its members and therefore is its strength. Effective, meaningful and sustainable communication can take place between the two only if the principal and processes of these informal institutions are more carefully understood and an appropriate architecture of engagement be built up between the two. Some steps towards that has been recommended including using of pictures and symbols rather than texts and also using of IT for recording sounds and visuals etc. Further research work in terms of building up the tools and piloting it could help engage with these institutions and help making these remote communities financially inclusive in a low cost and sustainable manner.

\*\*\*\*\*