Reinstating the Self-help Group Perspective in Microfinance

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Sayantan Bera’s article (EPW, 9 August 2008) on microfinance attempts to conflate the activities of self-help groups and their federations, the Grameen Bank replicators and commercial microfinance institutions, leading to the belief that in empowering the poor the positive attributes of one are shared by the others.

The history of proliferation of microfinance as outlined at the start of Sayantan Bera’s article “Programme Design and Impact Assessments: ‘Success’ of Microfinance in Perspective” (EPW, 9 August 2008) perhaps needs some correction. However, the more significant problem in an otherwise informative discussion is a conflation of the activities of self-help groups (SHGs) and their federations, Grameen Bank Replicators (GBR), and commercial microfinance institutions (MFIs) that encourages the belief that the positive attributes of one – from the point of view of empowering the poor – are shared by the other.

While contrasting the growth of microfinance to the unwillingness of banks to lend to the poor without collateral, Bera goes on to describe experiences with income-boosting programmes such as the Integrated Rural Development Programme (IRDP). He might also have mentioned the differential rate of interest (DRI) scheme that banks operated because of post-nationalisation compulsions coupled with refinance cover. In fact, all these programmes operated with the objective of improving income levels to ameliorate the lives of the itinerant and absolute poor. Neither the schemes nor the banks and their structures were geared to offer consumption loans that involve high information asymmetry, a need that was perhaps known all along but institutionally recognised only much later.

Even small loans for small-time entrepreneurs that could have been supported under DRI or IRDP were sometimes not covered because of the difficulties involved in the follow-up and collection, not to speak of barriers and transaction costs. These gaps were filled in by the traditional system of moneylenders who were rich persons of the dominant or other communities and external agents. Some of these financiers were involved in marketing the produce, namely, activity loans but for the most part, the moneylenders made sure to visit their clients regularly so as to watch the fluctuations in fortunes of the borrowers and take appropriate steps with great flexibility to ensure both high returns and the protection of their principal. With some degrees of practical difference, these are dynamic and static-incentive mechanisms. These included time-honoured collection methods like a public and largely symbolic seizure of pots and pans, commonly employed by moneylenders towards their poor borrowers and in the past by revenue officials, to collect revenue arrears from the most adamant defaulters. All these are quite traditional and from what Bera describes, attitudes and consequences have not changed!

Participation Strategies

The fundamental issue is how the situation has changed with the development of SHGs. These SHGs perhaps need to be seen as the natural evolution of development strategies of participation that was built up on practices of chit funds among the rural poor within an affinity group. The SHG represents, therefore, an institution that is the result of a participatory endeavour of people trying to secure three types of power – social, political and psychological that would empower them and improve their lives. In this respect, we know that poverty is multidimensional. Income poverty and its change is not the only measure for people. Bending less often before the moneylender matters.

I am with Bera when he notes that the SHG is unique to India. That is the case, we may assert, because this form of collective action exploits social ties in close-knit, homogeneous groups. Each rural group is invariably of one caste with generations-old kinship relationships that has led to settlements in the form of hamlets within villages as in ryotwari areas of Tamil Nadu or small villages with house groupings in other places. After all, there are rotating savings and credit groups (ROSCA) in other countries too. Caste as a tool for building society has several negative features but the SHG builds on its strengths to

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encourage collective action at the hamlet level and federate in multi-caste groups at higher levels of the village, the panchayat and the block. The deeper sociological basis for the SHG needs has, therefore, to be understood and their formation cannot be simplified into “an ingenious method of financial service delivery”. For delineating the difference between the SHG and MFI, it will be difficult to add to the description in the articles of Aloysius P Fernandez (2007) and Vasimalai and Narender (2007) and the clear distinctions they draw in the approaches and relevance of MFIs as against SHGs for achieving specific rural developmental goals.

To more clearly appreciate the difference between the SHG type activity and the GBR, merely sitting with them during the meetings of active groups could be adequate to comprehend the dynamics involved as this writer found while researching the activities of two such systems in Trichy 12 years ago.

A direct observational experience, although it cannot obviously be participatory, is very instructive. The GBR clerk who writes the accounts knows the clients very well and the whole exercise is transparent. However, the patron relationship is clear and in monetary terms, the surplus in the financial transaction is gained by the GBR, not the group. The major positive aspect in the programme was not the micro-finance activity per se but the ongoing livelihood development activities of the non-governmental organisation (NGO) which had commended the financial service through the GBR bank in its area of operation where bank services were already low and had reduced post-liberalisation.

In contrast, the SHG starts in a small way with equal contributions by members, promoting equal rights for members. Having set that norm, it appears that the members review the loan proposals by participants based on the full information of the nature of use and likely repayment. As the loans were then set at the moneylender’s typical rate of 3% per month, any entrepreneurial use, such as a small trading business, was assessed against the concerned person’s capacity to conduct the business effectively. Few secrets could be held from the group members and the high interest level implied the common need enforced by the group to eliminate proposals that could not meet this level of return.

**Supporting Entrepreneurship**

The entrepreneurial ability of the group members is intimately related to their environment and the opportunities that it presents, their past history of such activity, the previous experience of some or all the members in such activity. This opportunity structure is formed by the activities of NGOs, government programmes, the evolution of the village in different ways and the consequent awareness. In many of these ventures, financial management is minor but as more ambitious ventures come up, support will be needed at different stages of business development to ensure that sensible decisions are taken to ensure liquidity and sound finances. It is here that the NGO is useful and, indeed, critical. In an entirely credit-led operation as with most commercial MFIs, the entrepreneur is left to his own devices and substantial failures are bound to occur, as with most entrepreneurial ventures that founder because the good idea has not been supported with financial control or/and adequate marketing strategies. Since it is more likely that those borrowers who take up alternate, supplementary livelihood activities find higher relief by raising their incomes, their entrepreneurial capacity is important. This capacity is not merely a function of native ability, which may be quite uniformly distributed, but also related to socialisation and risk-taking capacity. This corresponds, not unexpectedly, with the systematic impact studies mentioned by Bera. Inspiration would, however, come from anecdotal examples of bootstrapping and is useful.

If we compare the various institutions of SHG, GBR, commercial MFI, banks and the traditional moneylenders that coexist today in various degrees across the country, the GBR and MFI are new while the SHG is an evolution of the kin-based chit fund. Where an NGO active in the area is involved as with SHGs and some types of GBRs or MFIs that insist on NGO coordination and support, the sustainability of these NGO-linked systems could be easily contrasted to the activity of a commercial MFI or the moneylender. Naturally, one must distinguish groups that have been nurtured by the substantial groundwork of NGOs or which have generated credible collective action from those actuated by the half-hearted efforts of government staff or the expectations of revolving fund provision.

Grouping the commercial MFI with the traditional moneylenders is not intended to be a deprecatory assertion as normal banks, regional rural banks or village credit cooperatives operate similarly in supporting entrepreneurial activity. Evidence to support this categorisation was starkly demonstrated in 2006 in Andhra Pradesh when some MFIs were alleged to have not only adopted capricious and usurious interest structures but also backed these with enforcers. It is apparent that these institutions have a particular niche in the gamut of rural credit needs that they need to focus with overlaps occurring as collective action builds mediated with the help of an external NGO or by the people’s institution itself. Long gestation credit needs may fall in this category. In some places, banks and MFIs are promoting borrower organisations to provide common services of technology, information provision and market linkages but clearly, this involves substantial extension activity that is not the forte of a financier but its success has relevance to widening the scope of credit. In most places, however, it would appear that whether commercial MFIs (as they exist today with equity and fund backing from domestic and foreign sources) can compete with the nationalised banks and the ubiquitous moneylender is still an open question.

**References**


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